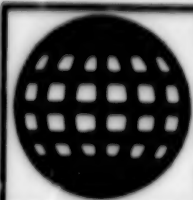


JPRS-CAR-90-071  
21 SEPTEMBER 1990



**FOREIGN  
BROADCAST  
INFORMATION  
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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-90-071

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21 SEPTEMBER 1990

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## GENERAL

### U.S.-Iraq Military Confrontation Viewed

HK0409080790 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 35,  
27 Aug 90 p 26

["Special dispatch" from Washington by He Dalong  
(0149 1129 7127): "The United States and Iraq Are at  
Daggers Drawn"]

[Text] Of the voices raised against Iraq's invasion of Kuwait around the world, the United States' has been particularly strong. In order to safeguard its own and the West's strategic interests in the Middle East, the United States is putting strong military, economic, and even psychological pressure on Iraq by carrying out "one of the largest maneuvers of U.S. joint military strength since World War II," as President Bush called it, in the Gulf.

At present, the U.S. Navy has placed a specially mixed fleet in the eastern Mediterranean, headed by the aircraft carriers Saratoga and Wisconsin (equipped with 24 "Tomahawk" cruise missiles). In the Red Sea, it has placed a specially mixed fleet headed by the aircraft carrier Eisenhower. In the Gulf of Oman, it has placed a specially mixed fleet headed by the Independence. And in the Persian Gulf, it has placed a specially mixed fleet headed by the amphibious attack warship the La Salle. These four specially mixed fleets have a total of 38 warships and 270 warplanes, and have virtually blockaded all of Iraq's sea outlets.

At the request of the Saudi Arabian Government, the United States has deployed large numbers of troops in Saudi Arabia. The U.S. Air Force has also placed there several hundred fighter planes, bombers, transport planes, in-flight refueling planes, electronic warfare planes, and advance-warning planes of various kinds, as well as 30,000 ground troops. Moreover, air and ground forces are continuously heading toward there. The United States has also placed B-52 bombers on Diego Garcia Island in the Indian Ocean, and has relocated the F-111 bombers which were used to bombard Libya in 1986 from an air base in Britain to one in Turkey. On 15 August, the U.S. Defense Department announced that it would send to the Gulf eight additional warships, headed by the aircraft carrier Kennedy, and to Saudi Arabia 22 additional P-117 "invisible" fighter planes and 45,000 amphibious attack troops of the Marine Corps. On 16 August, President Bush ordered the fleets in the Gulf to start a military sea blockade of Iraq and Kuwait by intercepting any ships entering or leaving those two countries and Jordan's port of al-Aqaba and not "allowing the entry of cargo or the transport out of a drop of oil." He also ordered that, "where necessary, force may be used" to stop ships from proceeding. In the meantime, the U.S. airborne troops stationed in Saudi Arabia

are holding frequent military exercises in the Saudi Arabia-Iraq-Kuwait border area. It appears that war may break out at any moment.

In response, Iraq has also sent another 60,000 troops to Kuwait as reinforcements, and has moved troops stationed on the Iraq-Iran border front into southern Iraq. Moreover, the Iraqi Government announced that if Iraq were attacked by the United States, it would strike a counterblow with chemical weapons. The Iraqi Government has also detained nearly 3,000 Americans in Kuwait and Iraq, and is not allowing them to leave.

On 7 August, when announcing the decision to send troops to Saudi Arabia, President Bush said the U.S. troops in Saudi Arabia are "all defensive" and are to "prevent Iraq from invading Saudi Arabia." As the U.S. military strength has increased in the Gulf, Bush has toughened his attitude. On 15 August, he said the "freedom" and "lifestyle" of the United States are "closely bound up with" the Gulf. The United States will never make the same mistake as it did 30 years ago by pursuing the "appeasement" policy toward Hitler. Moreover, he also openly announced his rejection of a diplomatic solution to the Gulf crisis, and said, "There is no hope of finding a diplomatic solution now, and no suggestions whatever can be used as a basis for talks."

As for U.S. intentions in the Gulf, U.S. political and press circles hold different views. An article in THE NEW YORK TIMES said, in the 1970's, the Middle East twice banned oil exports to the West, causing world oil prices to soar and having a far greater influence on the United States than the Gulf crisis this time. However, the U.S. Government did not send troops then. The fact that the United States is sending large numbers of troops this time shows that it has "other motives" behind the move.

People have come to notice that, as changes take place in Eastern Europe and the Soviet Union, and as the contradictions between East and West have lessened, the North-South contradictions are beginning to stand out. Throughout the 1980's, Western countries kept down the prices of the world's raw materials, agricultural products, and crude oil, bringing serious losses to the economies of Third World countries. Iraq's insistence on raising oil prices to safeguard the interests of oil-producing countries would directly affect the economic interests of the United States and other Western countries. This is what the United States and the West will not allow. When delivering a speech in the Pentagon, Bush himself made it clear publicly that the U.S. interference in the Gulf is aimed at ensuring its oil supplies.

Some time before Iraq invaded Kuwait, the U.S. Congress decided on measures to impose economic sanctions on Iraq with such excuses as Iraq's development of nuclear weapons, possession of chemical weapons, posing a threat to Israel and the West, and supporting international terrorism, in an attempt to keep it in check. This time, when Iraq was being blamed by countries

around the world and when the UN Security Council decided on the imposition of sanctions, the United States took the opportunity to restrain Iraq by not hesitating in using high-handed means to maintain "order in the post-cold war period," which it has been striving to create. An article in THE WASHINGTON POST says that the U.S. objectives in the Gulf region should not be limited only to the protection of Saudi Arabia, safeguarding oil resources, and allowing Iraq to withdraw troops from Kuwait, but also to throwing Iraqi President Saddam out of power and eliminating Iraq's powerful military strength. Therefore, at the present time, "any compromise, any talks, or any proposal that allows Saddam to withdraw troops from Kuwait in a pompous manner would be a colossal mistake for the United States."

In the meantime, U.S. press circles say that the current U.S. military strength in the Gulf has exceeded that required to protect Saudi Arabia, and has reached the level of "being able to destroy Iraq." ASSOCIATED PRESS says the fact that U.S. F-117 "invisible" fighter bombers flew toward Saudi Arabia on 15 August signifies that the "strictly defensive role" of the United States is "changing toward an offensive one." THE WASHINGTON POST also says, "The large numbers of troops being sent to Saudi Arabia have gone beyond the purpose of protecting Saudi Arabia against an Iraqi invasion." The paper also quoted a senior U.S. Government official as saying, "To a certain degree, we cannot but acknowledge that the ground forces are for defensive purposes. However, they will probably become offensive in the future, as they have obviously exceeded the level of defense."

#### Article Warns Against Use of Chemical Weapons

HK0509131490 Beijing JIEFANGJUN BAO in Chinese  
10 Aug 90 p 3

[Article by Luo Qingcong (5012 1987 5115): "Guard Against the Threat of Chemical Weapons"]

[Text] With the efforts of many countries, some progress has been made in the present talks on prohibiting the use of chemical weapons. The Soviet Union voluntarily exhibited their chemical weapons while the United States made public their chemical weapon destruction devices. Yet, all this has not brought about the light. The disposition and use of one weapon is determined by that weapon's military effects and also many factors, such as political and economic ones. The restrictions made in "talks" or "treaties" (if any) will only result in a new chemical weapon contest at a higher technical level. The destruction of chemical weapons by the Soviet Union and the United States means that the time for the renewal and generation change of chemical weapons has already come, and renewed chemical weapons will pose a more grave threat to world security.

The United States and the Soviet Union have discovered from their long-term nuclear confrontations that neither

of them can destroy the other side with the nuclear weapons in hand. Therefore, since the eighties, military experts of both NATO and the Warsaw Pact have conducted studies on strategies of how to defeat the other side with the use of nonnuclear force. After studying the military strategies of the Soviet Army and the Warsaw Pact, the U.S. Army and NATO found out that, with superiority in the number of conventional weapons, the Warsaw Pact would adopt an echelon attack strategy toward NATO. According to this, the U.S. Army decided in 1980 that, no matter whether in case of attack or defense, stress will always be laid on attacking the enemy's follow-up units in depth behind the enemy lines, which have not been thrown into the battle. This operational principle of "expanding the battlefield" was brought into the theory of "air-ground integration" in 1981. On the other hand, the Warsaw Pact, in light of the fact that NATO lacks depth in its defense while defense in the rear area is relatively better, brought up "iron-fist tactics" which means that the "rapid-reaction troops" get into the zones in depth behind the enemy lines to occupy or destroy command and communications centers, and some major targets, such as nuclear devices, airports, and ports; and create a situation in which enemies and their own people, military and civilians are intermixed so that NATO is unable to launch nuclear attacks.

To realize the above-mentioned military strategies, new weaponry and equipment are needed as a guarantee. According to some Western military strategists, new weapons should meet four requirements: mobility, density of fire, saturation functions, and an ability to protect enemy's operational materials (equipment).

Chemical weapons possess a powerful antipersonnel capacity and their area effects are incomparable with other weapons. They can "permeate wherever there is a hole." As a result, with no protection device, shelters cannot be used to protect from gas. On the contrary, they will become places liable for gas to build up. In addition, because chemical weapons only function through toxins acting on the physiological process of life, and will do no harm to military installations, bridges, and appliances etc., they are of great importance to depth attacks with an occupation intention.

Another feature of chemical weapons is that they possess various kinds of military effects, such as lethality, incapacitation, harassment, quick results, and staying power, and they can be chosen for use according to strategical and tactical needs. For example, in order to stop follow-up troops from assisting or gathering, long-lasting toxins can be used to slow down their movements, or to make some important areas impossible for them to use. Under some complex circumstances, such as the one under which enemies and our own people are intermixed, incapacitating toxins can be used. Harassing toxins can be applied to find out whether or not there are enemies lying in ambush, and it can also be used to dispel enemies from strong fortifications to be taken. Of course,

the power of chemical weapons will be greatly reduced on troops with protection capacity, yet a sudden use can still produce certain effects.

Regarding discharge systems, there are various kinds with chemical weapons, and different discharge systems can be adopted according to different needs. Flexibility and mobility in the use of chemical weapons are great.

Though nuclear weapons possess great power, they are often inconvenient to use when "depth attacks" are being carried out, or under the circumstances in which enemies and our own people, military and civilians are intermixed. Therefore, chemical weapons will occupy a distinctive position in the future weapon family. This may be one of the important reasons why the United States has declared its intention to continue its production of chemical weapons after ceasing production for 18 years.

#### Principles for Cambodia Settlement Discussed

OW0109023090 Beijing XINHUA in English  
0011 GMT 1 Sep 90

[Text] United Nations, August 31 (XINHUA)—Officials from the United States and Vietnam held their second round of talks here today, but failed to agree on a proposed framework for a comprehensive political settlement in Cambodia.

"The talks were useful," Kenneth Quinn, U.S. deputy assistant secretary of state for Asian-Pacific affairs and U.S. chief negotiator at the talks, briefly told reporters after the two sides broke up the meeting which lasted about two and a half hours at the U.S. mission to the United Nations.

U.S. officials who are familiar with the meeting said the talks were centered on the framework agreed upon by the five permanent members of the U.N. Security Council early this week for a comprehensive political settlement in Cambodia, but the two sides did not make any significant progress in bridging their differences.

The talks were the second round since the two sides first met on August 6 after the United States announced it was withdrawing diplomatic recognition from the Cambodian National Resistance government led by Prince Norodom Sihanouk.

Vietnamese Ambassador to the United Nations Trinh Xuan Lang told reporters after today's talks that the atmosphere of the meeting was "constructive," "useful and helpful."

Asked what differences existed between the two sides, the ambassador said, "I can't comment on this at this stage."

However, Lang told reporters of what he called three principles concerning a settlement in Cambodia where an almost 12-year-old war caused by the 1978 Vietnamese invasion has torn the country apart.

"First, we appreciate and welcome the efforts made by the five permanent members (Britain, China, France, the Soviet Union and the United States) to find an early solution to the Cambodian problem," Lang said.

Second, he said, "we believe that any solution must be decided by and agreed upon at the Paris conference" and third, "all matters relating to the internal affairs of Cambodia must be decided by and agreed upon by the Cambodian [as received] themselves."

Lang's remarks did not give a clear response to the five permanent members' proposal, a five-section framework for a comprehensive political settlement in Cambodia, which calls for a U.N.-operated transitional process to a new government in the country, including establishment of a Supreme National Council, cease-fire, withdrawal of foreign troops, cessation of foreign military aid and free elections.

Asked whether Vietnam welcomes the role of the United Nations in settling the Cambodia conflict, Lang said vaguely, "we are prepared to accept a role by the United Nations."

Regarding the Supreme National Council, which the five powers called for to take the U.N. seat currently held by the Cambodian National Resistance government, Lang said the Phnom Penh regime has made it very clear that the Cambodian seat at the United Nations should be "left vacant" before the establishment of the Supreme National Council.

Asked whether he and his American colleague have decided to hold further talks in the future, the Vietnamese ambassador said, "there was some discussion about this but (it) has not been decided yet."

#### UNITED STATES

##### U.S. Responsibility-Sharing Plan in Gulf Viewed

HK1209140490 Beijing RENMIN RIBAO in Chinese  
11 Sep 90 p 6

[Article by Zhang Yunwen (1728 0336 2429): "U.S. Government's Plan of 'Responsibility Sharing'"]

[Text] The United States has dispatched a large number of troops to Saudi Arabia and other countries. The expenses are large and the burden heavy. Therefore, U.S. President Bush decided to send Secretary of State Baker and Treasury Secretary Brady to visit some of the European, Middle East, and Gulf countries to request certain wealthy allies and Gulf countries to "share fairly the responsibility of security defense." Treasury Secretary Brady departed on 4 September for France, Britain, Japan, and South Korea. Baker left on the 5th for the Middle East and Europe.

It is not a coincidence the "responsibility-sharing" plan was brought up.



Since the beginning of the Gulf crisis, the United States has amassed over 50 ships and vessels in the Gulf area and about 100,000 troops and many military installations in the Gulf. The daily expenditure of this military action, named "Desert Shield," exceeds \$40 million. By the end of September, it will amount to \$2.5 billion total, more than double the Pentagon-estimated amount. For the U.S. Government, saddled with years of deficits, it represents an unbearably heavy burden. Because the U.S. economy has recently slid downward and because of rising oil prices and increases in military expenditures, the budget deficit for the fiscal year beginning 1 October may possibly reach \$300 billion, twice that of the previous fiscal year. Therefore, with the end of Congress adjournment, some congressmen who have recently returned to Capitol Hill have publicly asked wealthy allies share the expenditure of U.S. military activities in the Gulf. They openly proposed that West Germany and Japan, which rely most heavily on Middle East oil, should contribute more. For West Germany and Japan, such a move "does not help the United States but themselves," for they are the "greatest beneficiaries" of the U.S. protection of the Gulf oil supply route.

The U.S.-proposed "responsibility-sharing" plan has two features: One is financial aid for Egypt, Turkey, and Jordan, whose economies have suffered serious losses for imposing sanctions on Iraq; the second is a "fair sharing" of U.S. expenditures resulting from the amassing of military strength in the Gulf area. The major targets of "responsibility sharing" are West Germany, Japan, South Korea, Saudi Arabia, and Kuwait. THE TIMES of Britain revealed the United States has planned to request various countries to bear about \$1.1 billion every month.

U.S. calls for allies to contribute what they can in the Gulf incident have not been satisfactory. Restricted by their constitutions, West Germany and Japan have not sent any warships; West Germany has sent five mine-sweepers and offered certain logistic facilities but has made no financial commitment. Japan has only decided to offer \$1 billion in aid to the multinational troops, saying this is the largest amount it can offer and it is not willing to increase the amount. By dispatching important officials for canvassing shows that the United States is not satisfied with the contributions so far made by some "wealthy allies."

As for other countries, the preliminary results of the work of the two U.S. special envoys are: Saudi Arabia has committed itself to \$1 billion in expenditures, and the Kuwaiti Government has also made promises. The European Community decided at a recent meeting to offer \$2 billion in aid. The money can last for a while. But what is to be done after that? If there is really war it is estimated each day will cost \$1 billion. REUTERS said it may be difficult for the United States to again persuade European countries to give money to U.S. troops in the Gulf area. Reports said West German Prime Minister Kohl had mentioned to President Bush about the high

price of German unification, implying that he is short of cash, and with the intended effect of warding off U.S. special envoys.

There is a dissenting voice inside the United States about sending people around the world asking for the distribution of military expenses. Some congressmen favor increases in tax rather than "begging people." Some worry that the U.S. troops in Saudi Arabia may look like a mercenary army. It can be imagined it is not easy for Brady and Baker to complete their missions.

### Jimmy Carter Criticizes U.S. Dual Positions

OW1709101390 Beijing XINHUA in English  
0828 GMT 17 Sep 90

[Text] Washington, September 16 (XINHUA)—Former U.S. President Jimmy Carter today criticized the U.S. Government for carrying out two different attitudes toward U.N. resolutions on Israel and Iraq.

In an interview with CNN-TV network, Carter said the United Nations Security Council had unanimously passed at least six resolutions calling for Israel to withdraw from the occupied territories, to restore the rights of the Palestinians and to come to an international conference.

"These (resolutions) have the same legal status as the resolutions demanding that Iraq withdraw from Kuwait," Carter said. But "we are very selective in the U.N. Security Council resolutions that we fully endorse and use our influence to enforce."

"Ones relating to the sensitive issue of Israel and its occupation of the West Bank and Gaza (Strip), we have not made any all-out effort to enforce," the former president said.

"Almost all of the Arab leaders with whom I have met when I was president and since then, whether they are moderates or rejectionists, whether they are friendly to the United States or not, are convinced that this is not a balanced U.S. position," he continued.

"One indication of this is how we treat the resolutions calling for Iraqi withdrawal from Kuwait, on the one hand, or Israeli withdrawal from the occupied territories," Carter said.

"So this weakens, I think, the stature or the acceptance or the respect for U.N. Security Council resolutions," Carter stressed.

At the same time, the former president hoped the current Persian Gulf crisis could be solved peacefully.

Carter also hoped "out of this entire crisis will come a possibility, at least, for the resolution not only of the Iraq-Kuwait crisis, but also to lead to an acceptable solution to the conflicts between Israel and her neighbors or the relationship between Israel and the Palestinians."

## SOVIET UNION

### **Soviets Deny Giving Military Aid to U.S. in Gulf**

OW2508045790 Beijing XINHUA in English  
0126 GMT 25 Aug 90

[Text] Moscow, August 24 (XINHUA)—Moscow has denied Western reports that it is helping Washington in its Gulf military actions and shrugged off as "an illusion" the idea that Soviet warships are under the command of Americans.

A Defense Ministry spokesman, in response to a report by Britain's SUNDAY TIMES, said Soviet warships heading for the Gulf are not picking up American military personnel, the Soviet TASS NEWS AGENCY reported.

The spokesman also denied reports that the Soviet Union had provided blueprints of Iraqi missiles to the Pentagon.

He added that the Soviet Union merely offered the Americans information on types of missiles and other weapons Moscow has supplied to Iraq.

Such reports are intended to cast doubts on the clear position the Soviet Union has adopted on the Gulf situation, the spokesman added.

### **Gorbachev Stresses Need for Social Stability**

OW0109022790 Beijing XINHUA in English  
0153 GMT 1 Sep 90

[Text] Moscow, August 31 (XINHUA)—President Mikhail Gorbachev today stressed that the top priority now for the Soviets remains to strive for social stability, particularly as the economic situation had reached a crucial stage.

Speaking at a news conference, Gorbachev said: "Perestroika (reform) has entered a period of serious tests, and we have no right to be late."

Asked how many "variants" (or programs) were discussed at the joint meeting of the Presidential and Federation Councils today and yesterday, Gorbachev said the meeting had concluded that "there should be one blueprint" mapping out the country's transition to a market economy.

He stressed the need to "stabilize society regarding both political processes and the economy of the market and inter-ethnic relations," describing this as "one of the central issues."

Gorbachev also noted the need to expand the presidential power together with possible changes in the structure of government.

### **Article Views Soviet Role in Gulf Crisis**

HK0409060690 Hong Kong TA KUNG PAO in Chinese  
4 Sep 90 p 2

["Political Talk" column by Shih Chun Yu (2457 0689 3768): "Can Soviet President Help Bush Out of His Predicament?"]

[Text] U.S. President Bush and Soviet President Gorbachev decided to hold a summit meeting on 9 September in Helsinki to discuss how to end the deadlock in the Gulf crisis. Bush will then ask Gorbachev to help the United States tighten the encirclement around Iraq and use the Soviet Union's previous close relations with Iraq to force Iraq to soften its attitude.

The coming U.S.-Soviet summit meeting will attract people's attention because UN Secretary General Javier Perez de Cuellar went to Amman last week and held talks with Iraqi Foreign Minister Aziz on releasing hostages and withdrawing Iraqi troops from Kuwait, but the talks failed. Now, people will see whether the Soviet Union will play a mediating role. The world will also see whether the coordinated line adopted by the two superpowers after the end of the East-West cold war will relax the situation in the Gulf and effect world peace. Thus, this will be a touchstone for testing the capacity of the United States and the Soviet Union to control the world situation after they achieve a coordinated position.

After their summit talks in Malta last December, Bush and Gorbachev held another round of official talks in Washington in late May. The Helsinki talks will be their third round of talks. Thus, the presidents of the two countries will have met three times in a period of nine months. This indicates that U.S.-Soviet relations have indeed entered a new era.

However, during the previous two rounds of talks, the Soviet Union was facing difficulties, and Gorbachev's political and economic reform caused the economic crisis, the nationality crisis, and the danger of a party split at home; so he needed help from the United States. This time, Bush will need to seek help from Gorbachev. This meeting was proposed by Bush one week ago. The two countries decided on the venue and date for the meeting in the short time of one week, and such a quick decisionmaking process is unprecedented in U.S.-Soviet relations.

This showed that Bush felt it increasingly more difficult to deal with Iraq. He now faces a dilemma between fighting a war against Iraq and maintaining the deadlocked confrontation. Thus, he is asking Gorbachev to act as troubleshooter.

Although Bush is assuming a posture of being ready to fight a decisive battle against Iraq and he continues to dispatch more troops to the Middle East (it is expected that the total number of Army, Navy, and Air Force troops will increase to 250,000 by the end of this month), he has encountered opposition at home. The hostage

issue and the sacrifices that may be required by the U.S. troops forced the Americans to think more carefully, and they began to doubt the military approach to the dispute. More and more people expressed their hope that the crisis would be solved in nonmilitary ways. The change in domestic public opinion forced Bush to reconsider his plan; otherwise, it would be difficult for him to justify his decisions to the American public.

Although Saudi Arabia invited the United States to station troops in its territory, Defense and Aviation Minister Al Sa'ud told the press on 1 September in Damascus that Saudi Arabia would never allow U.S. or other foreign troops stationed in its territory to be the first to launch an offensive in order to rescue the Western hostages and force Iraq to withdraw from Kuwait. He emphatically stated, "Saudi Arabia is not the stage for any non-defensive action. The mission of the foreign troops stationed in Saudi Arabia is to defend the country." Obviously, Saudi Arabia did not want to feel guilt about inviting foreign troops to attack another Arab country. It stipulated that the task of the U.S. troops was to help Saudi Arabia resist external invasions.

This statement thus restrained the U.S. troops from launching an attack from Saudi Arabia to recover Kuwait. Of course, if the United States is bent on fighting a war, it still can create the excuse of "being attacked and launching a counterattack." However, if the fraud is laid bare, the consequences will be unimaginable.

The Soviet Union has made clear its position on the Gulf crisis on many occasions. The Soviet Union would be willing to dispatch its troops only under the legal banner of the United Nations. The Soviet Union and Iraq have a friendship and cooperation treaty, but the Soviet Union still supports the UN Security Council's resolutions on imposing sanctions on Iraq. It is expected that what Gorbachev can promise to do for Bush is to mediate between the two confronting sides in order to seek a peaceful solution to the crisis.

#### **USSR Demonstration Decree Ruled Unconstitutional**

*OW1509032590 Beijing XINHUA in English  
0101 GMT 15 Sep 90*

[Text] Moscow, September 14 (XINHUA)—The Soviet Committee of Constitutional Compliance has ruled against President Mikhail Gorbachev's decree on demonstrations in Moscow center.

Sergey Alekseyev, chairman of the committee, said at a press conference here today that the committee ruled on Thursday that the presidential decree was incompatible with the Soviet Constitution because it restricted the powers of the Russian Republic and the Moscow City.

The decree announced by Gorbachev on April 20 stipulated that all rallies, protests and demonstrations in central Moscow should be approved by the Soviet Government.

However, the Soviet Constitution gives the final say over rallies to parliaments in republics and autonomous republics, and local governing councils.

The committee also admitted that it is reasonable to make a special stipulation when a rally or demonstration is held in the country's headquarters, but the presidential decree must be based on the Soviet Constitution and law, and the president has no power to revise or supplement the Soviet law.

### **NORTHEAST ASIA**

#### **Japan Split on Transport of Military Supplies to Gulf**

*OW2708173290 Beijing XINHUA in English  
1352 GMT 27 Aug 90*

[Text] Tokyo, August 27 (XINHUA)—Government officials disagreed today over the use of Japanese civilian aircraft and ships to transport United States military supplies to the troubled Middle East.

Vice Transport Minister Junji Hayashi told a press conference that, "I believe there will be no legal problems (providing such transport), although there is constitutional debate.... But it's out of the question to transport arms ammunition and troops."

The government is unofficially sounding out airline and shipping companies on their willingness to provide transport equipment, but it cannot force them to cooperate in such operations, he added.

The United States reportedly urged Japan last week to provide civilian aircraft and ships to help carry troops to the Gulf region.

Japan's Constitution prohibits the use of force in resolving international conflicts, thus making it difficult to provide direct support to the U.S.-led military forces facing Iraq.

Earlier in the day, however, a government source who asked not to be named said Japan can transport weapons, ammunition and military personnel to the Gulf in response to a U.S. request.

"There is no legal problem. It does not mean they would carry Japanese weapons or that Japan would participate in military activities," the source said.

He added that civilian aircraft and ships might be leased to the multinational force in the Middle East rather than solely to the U.S.



Meanwhile, Shin Kanemaru, senior leader of the ruling Liberal Democratic Party and former deputy prime minister, at a seminar today in Kannami, Shizuoka Prefecture, called for quick action on necessary legal changes to allow the dispatch of Japanese personnel to the Gulf region.

Japan's Constitution bans sending the Self-Defence Force (SDF) overseas, though a 1987 law allows only the dispatch of policemen and fire fighters, as well as medical teams in the event of natural disasters such as earthquakes and nuclear accidents.

Leaders of the Japan Socialist Party, the largest opposition party, have said they will strongly oppose any moves to dispatch even medical personnel of the SDF to the Gulf region.

#### **DPRK Seminar Demands Change in U.S. Policy**

OW0409183090 Beijing XINHUA in English  
1807 GMT 4 Sep 90

[Text] Pyongyang, September 4 (XINHUA)—A Korean-U.S. antiwar and antinuclear seminar demanded today that the United States change its current policy toward the Democratic People's Republic of Korea (DPRK).

The seminar, co-sponsored by the Korean Anti-Nuclear Peace Committee and the U.S.-Get-Out-of-Korea Committee, started Monday, was attended by political parties and social organizations of the two sides.

In a declaration issued by the seminar after its conclusion here today, it said that the United States should talk with the DPRK and reach a peace agreement with the country.

The declaration said that in order to maintain world peace and realize the reunification of Korea, tension in the Korean peninsula should be eliminated and a peaceful environment be created.

It added the Korean armistice agreement should become a permanent peace agreement as soon as possible. The military forces of the North and South sides of Korea should be cut and the annual military exercises "Team Spirit" by the United States and South Korea be stopped.

It also expressed support for the free exchanges between the people on the two sides and the full open of each other.

The declaration also demanded the United Nations to play a positive role in solving the Korean issue fairly.

It stressed that Korea's entry to the United Nations should be solved only after an agreement on the issue is reached between the North and South sides of Korea.

#### **NEAR EAST/SOUTH ASIA**

##### **Pakistan Confident of Peace Progress With India**

OW3108090690 Beijing XINHUA in English  
0824 GMT 31 Aug 90

[Text] Islamabad, August 31 (XINHUA)—Pakistan caretaker Prime Minister Ghulam Mustafa Jatoi has expressed confidence that Indian forces now concentrated on Pakistan's borders will revert to their peace time position to create a tension-free atmosphere.

In an interview with the PAKISTAN PRESS INTERNATIONAL (PPI) at Jatoi house in Karachi Thursday, which was released Friday, Jatoi said, "We expect that during the next meeting of the foreign secretaries of Pakistan and India some positive results will be achieved."

Pakistan and India have held two rounds of talks on the Kashmir dispute and border tension at the foreign secretaries' level, first in Islamabad and then in New Delhi since mid-July this year, with no substantial results coming out of them.

Both sides expressed their views on the Kashmir issue and discussed various confidence-building measures between the two countries.

They maintained that the talks are conducive to easing the tension and agreed to carry on with the talks. The third round of the talks is expected to be held here next month.

Relations between the two neighboring countries have become tense in the past few months due to the deteriorating situation in the Indian-held Kashmir. India accused Pakistan of being involved in the terrorist activities in the Kashmir valley while Pakistan condemned India for its atrocity against the Kashmiri people and supported their struggle for self-determination.

The atmosphere of tension and war has shrouded the two countries when both sides began concentrating their troops along their common borders. Pakistan has time and again asked India to pull its troops to the peace time position but India has refused.

"I hope that such situation will not last long and that Indian forces will return to their peace time position thereby creating a tension-free atmosphere," Jatoi said.

The mounting tension in the Gulf has resulted in easing tension in the sub-continent, war experts here said.

In spite of the recent border clashes on the line of control, the mobility of the Indian forces is seriously handicapped by the shortage of oil supply due to the Gulf crisis, military experts said.

### **Iraq Chemical Weapons Use Seen Likely in Defense**

90P30087A Beijing BINGQI ZHISHI [ORDNANCE KNOWLEDGE] in Chinese No 4, 15 Jul 90 pp 12-13

[Article by Lang Zongheng (6745 1350 0077): "Iraq and Chemical Warfare"; first paragraph is source-supplied introduction]

[Excerpts] According to a 7 April 1990 XINHUA News Agency report, Iraqi President Saddam Husayn said on 2 April, "If Israel were to be so audacious as to launch a nuclear surprise attack on Iraq, Iraq will use chemical weapons to counterattack." Would Iraq do such a thing? Please read on....

Because chemical weapons are similar to atomic weapons in lethality, yet are cheaper and easier to manufacture, they are called "the poor country's atomic bomb." If Iraq were to be surprised by an Israeli nuclear attack, it would use its "atomic bomb"—chemical weapons—to counterattack.

#### **Iraq's Chemical Warfare Capability**

Through nearly 20 years of effort beginning in the decade of the sixties, Iraq early on became a country with chemical weapons. Iraq's original plan was based on the idea of developing "chemical weapons as a force to balance Israel's superior military might." Later, as the situation changed, Iraq "made chemical weapons the method by which to counter Iran's superior military might." These two drives greatly fueled Iraq's development of chemical weapons, and the second drive has already borne fruit.

Iraq's chemical warfare capability is similar to that of many other countries in that it was developed under the pretext of pesticides manufactured for agricultural development purposes.

When developing countries want to set up toxic substance industries, they generally need to seek equipment from foreign firms. During the mid-seventies, Iraq had asked the U.S. company Fu-de-le [4395 1795 0519] to help it design and build a pesticides plant, but did not put all its cards on the table. Furthermore, at various stages, it refused to allow the company's involvement. As a result, negotiations broke down. Iraq then sent an

order to a British chemicals company, but the sly British company realized what Iraq was up to and refused to cooperate. Iraq thus had to electronically send its order to West Germany, Switzerland, the Netherlands, and other European countries. After many setbacks, Iraq finally found a West German company that "really did not know what Iraq was up to" to help it produce toxic agents under the pretext of a pesticides plant. [passages omitted]

#### **Israel Is Very Afraid of Chemical Warfare**

Israel uses its strength to bully the weak and often uses military force to threaten neighboring countries. It has even threatened to use nuclear weapons, yet widely declares that it does not fear a nuclear surprise attack.

The Israelis have said that they do not fear nuclear weapons because their territory is very small. If anyone were to launch a nuclear surprise attack against them, neighboring countries would surely suffer calamitously and an international dispute would ensue. Israel thus believes that no one would dare use nuclear weapons against it. It does not, however, dare "brag" in this manner about chemical weapons, which have great effect in a small area. Israel has made painstaking efforts to manufacture chemical weapons and has imported large quantities of antichemical weapons equipment from other countries. [passage omitted]

Since Israel does not fear a nuclear surprise attack but greatly fears chemical warfare, it logically follows that Iraq would decide to use chemical weapons to counterattack Israel. The day after the Iraqi president warned Israel of the risks of a nuclear attack, U.S. President Bush censured Husayn's warning and strongly demanded that Iraq give up its plans to use chemical weapons. The Iraqi president refused, saying, "I feel that the Iraqi people have a legitimate right to protect their homeland." The implication is that if Iraq were to receive a surprise nuclear attack, no country would have any right to determine what method it would use to counterattack.

As a sovereign nation with a chemical warfare capability and actual experience in chemical warfare, Iraq would, in the event of an enemy nuclear surprise attack, use all means to retaliate, including the "poor country's atomic bomb"—chemical weapons.

### Psychological Factors of Reluctance To Criticize

90CM01694 Nanjing QUNZHONG [THE MASSES]  
in Chinese No 7, 3 Jul 90 pp 36-37

[Article by Li Chengshu (2621 2052 2885) and Teng Chunliang (3326 2504 3186): "A Simple Analysis of the Psychological Factors Affecting the 'Right to Criticize' Within the Party"]

[Text] To restore and carry forward the excellent party tradition and work style and once again take up the weapons of criticism and self-criticism and conduct an active ideological struggle, we must solve serious current problems regarding criticism. Therefore, we must not only give serious attention to the social, political, and economic factors which cause this problem, but we must also give serious consideration to psychological factors in the people themselves. The author believes that at least the following few psychological factors affect people's normal conduct of criticism and self-criticism:

1. A mentality of indifference. Lacking the least enthusiasm and concern, when they clearly see or hear that someone is doing something wrong and sliding further and further down the wrong road, they pretend not to see or hear and that it does not have anything to do with them anyway, exhibiting extraordinary apathy and indifference.

2. The nice guy mentality. They always think that they can gain advantage from both sides by being a nice guy. When anything happens, they crack a joke and figure that if they don't speak out one way or another, no one will find fault. Comrades who have this mentality are by no means unaware or ignorant of other comrades' shortcomings or mistakes. The crux of the matter is that they always like to make their own "little reckoning." They do not want nor do they dare to criticize a comrade's shortcomings and mistakes. They are always thinking "grow more flowers, don't grow thorns."

3. The fear of causing trouble mentality. Quite a few comrades feel uneasy about making the criticism that it is necessary to pay attention to politics and to uncover ideological roots by seeking truth from facts. Some are concerned about analyzing and criticizing in this way for fear that people will say that they are bludgeoning and labeling, some are concerned that in analyzing and criticizing they will not have the support of the people and will get themselves into a predicament, and some are concerned that those who are being criticized will not be able to take it and will turn things upside down by pestering them.

4. The dread mentality. They do not say a thing about criticism and self-criticism and at the mention of "criticism" they blanch. When they encounter a situation where criticism and self-criticism are taking place, they often leave or slip out if they can. If they cannot actually avoid it, they are extremely cautious and fearful that the fact that they are not quick to open their mouths will cause them disaster.

5. The guilt mentality. Some comrades, lacking a strong backbone, when they encounter criticism are "like a clay idol furling the river—hardly able to save themselves." Why would they have a mind to "bother themselves more about matters that do not concern them?" They are afraid that if they criticize other people, they themselves will be criticized—if they pull out the radish it will bring the mud—by drawing criticism of themselves, the loss would outweigh the gain.

These psychological phenomena that make criticism difficult are certainly produced by multiple factors in one's social background.

In the last few years the four cardinal principles have not been thoroughly upheld and bourgeois liberalization has not been resolutely and vigorously criticized. Those who engage in bourgeois liberalization have received some criticism, but their activities have become even more reckless and the ideological trend of bourgeois liberalization has become even more rampant. Various types of strange theories are very much talked about and are held in the highest esteem, while the great Marxist theory and practice suffer unprecedented attack. Some who have provided inspiring education to generations and even today have still not lost their correct political stand suffer unwarranted rebukes and gibes. In this type of atmosphere, how can there still be talk about any kind of normal criticism and self-criticism? This is the sociopolitical cause of the psychological difficulty with criticism.

Learning the wrong lessons from historical experience is a social historical cause of the psychological difficulty with criticism. In the 10 years of chaos, criticism and self-criticism were replaced by "revolutionary mass criticism." Widespread beatings and labels filled the sky. Many innocent comrades suffered unredressed injustices and extreme hardships to the point that everyone was personally endangered. We should never forget this type of lesson. But there also are some comrades who only passively absorbed the lesson, producing a certain instinctive reaction and fear toward criticism. To guard against "disaster coming from their mouths" they become "clever" and practice an attitude that "harmony is precious" and "tolerance is superior" toward clear violations of party discipline and national laws, and activities that are detrimental to the collective good. Although their hearts are not at ease, they remain silent and are reluctant to speak.

They attach too much importance to selfish motives and weigh everything by the unhealthy tendency of "connections." This is an ideological root cause of the psychological difficulty with criticism. In some people's minds the scale of benefits is tilted toward "little me." The determinants of their statements and actions are solely their individual benefit and individual gains and losses or "brotherhood," not the gains and losses, success and failure of the collective or even the total revolutionary cause. "The more friends, the more avenues; the fewer friends, the fewer bridges," distracting selfish thinking and the swindler's code are merged. If they criticize their



superiors, they are afraid that the superiors will make it difficult for them. If they criticize their coworkers, they are afraid that it will be difficult to establish connections. If they criticize their subordinates, they are afraid of losing their votes. Can they still have the nerve and the courage to carry out criticism and self-criticism?

The fact that some leading comrades have not set an example in criticism has also been an important factor in the psychological difficulty with criticism. They love to hear virtues and achievements praised, but do not like to listen to an analysis seeking truth from facts. They especially do not like to hear criticism that exposes problems. They multiply the commendations of those who say "good things," promoting them to important positions. Toward those who say "bad things," their expression turns cold with disgust and bitter hatred. Some people's vanity is so strong and their mannerisms so overbearing that when they make a mistake, they not only do not criticize themselves, but they will not even permit other people to criticize them, or permit those working for them to be criticized, believing that to criticize their employees is the same as negating them. For a long time the custom of flattery and fawning has been on a constant increase. How could the good custom of criticism and self-criticism not be on a constant decline?

So, how can we overcome these types of psychological phenomena, enhance and improve people's mentality, and create the necessary psychological basis to smoothly accomplish criticism and self-criticism?

First, we must enhance our understanding of criticism and self-criticism. A major cause of the difficulty with criticism in our party is that a number of comrades lack a proper understanding of criticism and self-criticism. Now, we must energetically initiate criticism and self-criticism and enthusiastically launch an ideological struggle, and we must organize the study of theories related to Marxism to help people improve their understanding of criticism and self-criticism so that people can truly understand that criticism and self-criticism are powerful ideological weapons of a Marxist political party. If we Communists are to seek truth and safeguard truth, we must eliminate selfish, distracting thoughts and consciously use the weapons of criticism and self-criticism. Especially in the circumstances of reform and opening up and developing the socialist commodity economy it is even more necessary to enthusiastically conduct criticism and self-criticism. Only then can we preserve the working class as the vanguard of the party and enhance the party's cohesion and combativeness.

Second, we must enhance the appropriate psychology of criticism and self-criticism within the party. In criticism and self-criticism, whether we are the critic or the person being criticized, we must solve the psychological problem of enduring it. Our psychological endurance directly affects the conduct and results of criticism and

self-criticism. A fundamental way to improve psychological endurance is to reinforce practical training in criticism and self-criticism. We learn criticism through criticism. Every Communist must enhance his practical training in self-criticism, criticism of other people, and acceptance of criticism from other people.

Third, the leaders must take the lead in conducting criticism and self-criticism. To restore and carry forward the party's excellent tradition and style, it is essential that the leadership take the lead. The leading cadres must be stricter in appraising themselves than in appraising others, and when a problem arises they must be adept at examining their own responsibility, courageous in assuming responsibility, and take the lead in conducting self-criticism. The leading cadres must have a spirit of democracy and equality and sincerely and modestly accept proper criticism from others and be careful to deal properly with suggestions given to them, proving through practice if people have made an incorrect suggestion. When leading cadres criticize others, they must keep the public interest in mind, treat everyone equally without discrimination regardless of relationship, and they definitely cannot take a congenial, lenient, and accommodating attitude toward the shortcomings and mistakes of those rather closely related to them. Only if they do this will other comrades be able to get rid of their psychological misgivings about criticism and very effectively conduct criticism and self-criticism within the party.

#### Assessment of Recent High-Level Cadre Reassignments

90CM0341A Hong Kong CHIUSHIH NIENTAI (THE NINETIES) in Chinese No 247, 1 Aug 90 pp 64-65

[Article by Lin Wei (2651 5898): "The Story Behind the Reshuffling of Government and Military Cadres in Communist China"]

[Text] At the Sixth Plenary Session of the CPC Central Committee and the Third Session of the Seventh NPC (National People's Congress) held last spring, personnel changes were basically frozen to create a superficial appearance of "stability." Only three officials above the ministerial level were dismissed. They were Central Military Commission member Xiong Xuezhai, CPPCC (Chinese People's Political Consultative Conference) Vice Chairman Yan Mingfu, and NPC Standing Committee member Hu Jiwei. When these sessions were over, however, major personnel changes were announced one after another.

#### Personnel Reshuffles in the Army

In the armed forces, nine of the 17 full generals were relieved of their duties. In addition to Xiong Xuezhai, the generals dismissed were Li Desheng (political commissar of the National Defense University), Guo Linxiang (deputy director of the General Political Department), You Taizhong (second secretary of the Discipline

Inspection Committee under the Central Military Commission), Li Yaowen (political commissar of the Navy), Liu Zhenhua (political commissar of Beijing Military Region), Wan Haifeng (political commissar of Chengdu Military Region), Xiang Shouzhi (commander of Nanjing Military Region), and Wang Chenghan (political commissar of the Academy of Military Science).

Other military personnel relieved of their duties included Zhou Yibing (former commander of Beijing Military Region), Fu Kuqing (former political commissar of Nanjing Military Region), Zhao Xianshun (former commander of Lanzhou Military Region), and Li Jinhua (political commissar of Lanzhou Military Region).

A number of high-ranking military officers were promoted or transferred. Yu Yongbo, former director of the Political Department of Nanjing Military Region, was promoted to deputy director of the General Political Department. Li Jinai, former director of the Cadre Department under the General Political Department, was promoted to deputy director of the General Political Department. Li Jiulong, former commander of Jinan Military Region, was promoted to deputy director of the General Logistics Department. Zhang Zhen, chancellor of the National Defense University, was concurrently appointed political commissar. Wang Chengbin, former deputy commander of Nanjing Military Region, was promoted to commander of Beijing Military Region. Zhang Gongsheng, former spokesman of the martial law enforcement troops, was promoted to political commissar of Beijing Military Region. Cao Yaoqi, former deputy political commissar of Nanjing Military Region, was promoted to political commissar of Lanzhou Military Region. Zhang Taiheng, former deputy commander of Chengdu Military Region, was promoted to commander of Chengdu Military Region. Gu Shanqing, former deputy political commissar of Guangzhou Military Region, was promoted to political commissar of Chengdu Military Region. Zhu Dunfa, former deputy commander of Shenyang Military Region, was promoted to commander of Guangzhou Military Region. Gu Hui, former deputy commander of Jinan Military Region, was promoted to commander of Nanjing Military Region. Shi Yuxiao, former deputy political commissar of Nanjing Military Region, was promoted to political commissar.

On the recommendation of Ren Jianxin, president of the Supreme People's Court, and Liu Fuzhi, chief procurator of the Supreme People's Procuratorate, the 14th Session of the Standing Committee of the Seventh NPC which met in late June appointed Hou Gu and Li Yijun as president of the PLA (People's Liberation Army) Military Court and chief procurator of the PLA Military Procuratorate, respectively. Meng Zhongren and Shi Jian, respectively, were relieved of the above two posts.

Since the Chinese Communist regime depends on the barrel of the gun for its survival, all organizational readjustments and charges begin with the armed forces.

The readjustment of the military, which began after the Fifth Plenary Session of the 13th CPC Central Committee last November, was basically completed by May this year. Military officers who were seen to be wavering during "4 June" were relieved of their duties. Commander Zhou Yibing and Political Commissar Liu Zhenhua of Beijing Military Region were thus deposed. Zhang Wannian of Guangzhou Military Region was also transferred out of Guangdong. Others, such as Generals Li Desheng, Wang Chenghan, and Li Yaowen, were dismissed because they failed to follow through with the suppression. Other than officers who played an "active" role in the suppression, such as Zhang Gong, the present political commissar of Beijing Military Region, the ones promoted either have close ties to Deng Xiaoping or Yang Shangkun's "Yang family generals," or at least are people they trust. It is as yet unclear whether the dismissal of Meng Zhongren as president of the Military Court and Shi Jian as chief procurator of the Military Procuratorate has anything to do with the trial of officers and men who violated military orders last year.

#### Personnel Changes in the State Council and at the Provincial Level

In May and June, the State Council announced the appointment of quite a number of ministerial officials. Xu Wenbo and Chen Changben were appointed vice ministers of culture; Wang Liheng was appointed vice minister of aeronautics and astronautics industry; Duoji Cairang was appointed vice minister of civil affairs; Guo Dongbo was appointed deputy director of the Macao branch of XINHUA NEWS AGENCY; and Zheng Guoxiong was appointed deputy director of the Hong Kong branch of XINHUA NEWS AGENCY.

Officials relieved of their posts were: Wang Jifu and Ying Ruocheng, vice ministers of culture; Chen Haosu, vice minister of radio, film, and television; Sun Jiadong, vice minister of aeronautics and astronautics industry; and Zhou Ding, deputy director of the Macao branch of XINHUA NEWS AGENCY.

The 14th Session of the Standing Committee of the Seventh NPC which ended on 28 June relieved Minister of Agriculture He Kang of his duties and appointed Liu Zhongyi, vice chairman of the State Planning Commission, to succeed him. (Since one of the charges against Zhao Ziyang was that he did not pay enough attention to agriculture, He Kang's dismissal was to be expected. It was an indirect way of convicting Zhao Ziyang.)

Ying Ruocheng probably aroused the resentment of Li Peng for telling reporters on two occasions after "4 June" that Zhao Ziyang would not have to stand trial. Chen Haosu once gave encouragement to the making of "entertainment films." Today, the "leftist lords" are criticizing the "theory of taking entertainment films as the mainstay" for failing to uphold the socialist orientation. Being the son of the late Marshall Chen Yi, Chen

Hansu was given "lenient treatment" and transferred to be vice president of the Association for Friendship with Foreign Countries.

Zhou Ding's dismissal should have something to do with Xu Jiatao, former director of the Hong Kong branch of XINHUA NEWS AGENCY who is now "traveling and taking a rest." It is believed that Zheng Guoxiong, director of organization for Guangdong Province, was transferred to Hong Kong because some people did not want Li Peng to have complete control over the Hong Kong branch of XINHUA NEWS AGENCY.

As for provincial cadres, there have been quite a few top-level reshuffles since "4 June." The changes affected the secretaries of various provinces, cities, and autonomous regions, provincial governors, mayors, and chairmen of autonomous regions. A total of 13 provinces and autonomous regions were affected. They were Shanghai, Tianjin, Qinghai, Shaanxi, Hubei, Henan, Hebei, Jiangsu, Hainan, Ningxia Hui Autonomous Region, Guangxi Zhuang Autonomous Region, and Tibet. Amidst the reshuffles, Jiang Zemin and Li Ruihuan were promoted to important posts in Beijing. Some, such as former Hainan Provincial Governor Liang Xiang, were dismissed for "political mistakes." Others were dismissed "for reasons unknown."

#### Readjustment and Interflow—A New Tactic?

Talks of "interflow" recently came up in discussions on the question of personnel changes.

According to a ZHONGGUO XINWEN SHE dispatch on 4 July, the CPC Central Committee recently decided that there should be interflow between provincial-level cadres. Already, the governors of Liaoning, Henan, and Hebei were swapped. Liaoning Governor Li Changchun was transferred to Henan; Henan Governor Cheng Weigao was transferred to Hebei; and Hebei Governor Qiu Qifeng was transferred to Liaoning.

On 6 July, ZHONGGUO XINWEN SHE reported that Deng Hongxun, former deputy secretary of the Jiangsu Provincial CPC Committee, had taken over from Xu Shijie as secretary of the Hainan Provincial CPC Committee as of that day and that Shi still retained his post as chairman of the Standing Committee of the provincial People's Congress. Apparently, Xu Shijie has not been able save himself from the axe after turning against Liang Xiang.

The idea of "interflow" first popped up on 21 June when State Council spokesman Yuan Mu met reporters from the Japanese Kyodo News Agency. In his answer to questions raised, he disclosed that, in accordance with the "Regulations Regarding the Service of Cadres of the Chinese People's Liberation Army," the CPC Central Committee and Central Military Commission decided to conduct a "readjustment and interflow" among the leading bodies of the seven military regions. Since this news item was carried in an official XINHUA dispatch

and the wording used was "interflow" rather than "transfer," we can definitely take it as the latest official version.

What then is the aim of "interflow"? The XINHUA dispatch quoted Yuan Mu as saying that "the interflow of cadres is a normal practice." "It has been carried out for many years and is not something new." "There must be interflow among local cadres, not just among military cadres."

Since Yuan Mu has told too many lies, the term "interflow" perhaps needs closer scrutiny. The Chinese Communists did say in the past that interflow was necessary among cadres. That was after the failure of the "Three Red Banners" in the 1960's. As for the armed forces, toward the end of the Cultural Revolution when things were getting out of hand, Mao Zedong had Deng Xiaoping reinstated and conducted a major reshuffle (interflow?) among the 10 major regions to prevent military leaders from setting up strongholds of their own. In the "interflow," Xu Shiyao was transferred from Nanjing to Guangzhou. He refused to accept this order as final, and went back to Nanjing after a brief stay in Guangzhou when he could have returned to Beijing as vice minister of defense. He later died in Nanjing. In 1985, Deng Xiaoping had the 11 military regions reduced to seven in an effort to force the aging military leaders to step down so he could exercise better control over the armed forces. He also availed himself of this opportunity to carry out a personnel reshuffle. While some commanders were made to step down, an "interflow" of high-ranking military officers was also launched.

#### Everything for "Stability"?

The current "interflow" of high-ranking military officers was evidently necessitated by the fact that through the "4 June" incident it was discovered that some military officers were not very obedient and were "working in collusion with" the local governments in confronting the central government. This time, the "interflow" was on a much broader scale. In addition to ranking military officers, provincial-level local leaders were also involved. The reason for this is that the present "third-generation leadership core" lacks the support of provincial-level leaders. Because of his lackluster performance and the role he played in the "4 June" incident, Li Peng, for one, does not enjoy popular support. Yao Yilin has aroused the resentment of the localities because he favors the planned economy. Qiao Shi and Song Ping also lack the necessary prestige. Although Jiang Zemin and Li Ruihuan can represent local interests to a certain extent, they have not yet won the support of other localities, having just risen from amongst them. At present, problems of "the encirclement of the central government by local governments" and "the higher authorities issue policies, the lower levels work out countermeasures" are quite serious. In other words, local "separation," particularly economic separation, is becoming more and more evident. If they gang up with



the military, it would have been intolerable to the "great unity" of the central government. Hence the need for the recent "interflow."

In short, the fact that the Chinese Communists have to carry out such a large-scale personnel reshuffle and readjustment while bragging about its "stability" shows precisely that they are aware of the instability. The more frequently that personnel reshuffles are carried out in the military and the government, the more it reflects that the old man at Zhongnanhai is worried about his grip on power.

#### News Tidbits From Mainland Publications

90CM0341B Hong Kong CHUUSHIH NIENTAI [THE NINETIES] in Chinese No 247, 1 Aug 90 pp 74-75

[Article by Wang Hsi-yu (3076 1585 4368): "Beijing Files"]

#### [Text] "Chef Wei Cuts Up a Steamed Chicken"

You have no idea what this means, do you? Without reading the explanation in ZHONGGUO QINGNIAN BAO, no one would have the faintest idea what this means. This is a special feature of the mainland advertising market. In an advertisement for "Golden Rules for Memorizing English Words," it was claimed that using this method, a student of English can improve his score from 60 to over 95 and can memorize 100 words a day. "Take the word 'country,' for instance. All you need is to remember that 'Chef Wei cuts up a steamed chicken.'" Even with this explanation, I still fail to get the meaning. Is it a pun? Is it an association of thought? If "Chef Wei cuts up a steamed chicken" means "country," then what does "Chef Chen stews a duck" mean?

The China mainland has become a "major disaster area" where sham advertisements are concerned.

• ZHONGGUO QINGNIAN BAO carried an article refuting the malpractices of the advertising industry and the dirty tricks of unscrupulous merchants. The paper called for the strict enforcement of law and discipline over advertising.

The following is a random selection of some of the more popular advertisements:

One advertisement claims: You can have a permanent fold on your eyelids without having to undergo an operation or receive medication.

A second advertisement claims: Your white hair will turn black again if you brush your teeth with a certain brand of tooth powder.

A third advertisement claims: You can earn 10,000 yuan a month if you are willing to pay a certain sum in tuition fees. No raw materials or equipment will be needed.

A fourth advertisement claims: A small box, when connected to a power source, will heal patients of cirrhosis of liver. The success rate is 95 percent.

• Two of the biggest advertisement battles to date have GUANGMING RIBAO as their battlefields. Already several skirmishes have been fought. The first case taken the form of a declaration of infringement of rights published by "Beijing Tiansan 831" mouthwash, which had passed the appraisal of the China Medical Association, against another mouthwash bearing the same brand name. The second case involves a "declaration" and a "counterdeclaration" published by the Nanfang Pharmaceutical Factory in Shenzhen and the Haikou City Pharmaceutical Factory in Hainan Province on the authenticity of the "3-9 Gastric Tablets" they produced.

#### The "Ordinary Citizen"

• On 2 July, all Beijing papers carried reports and dispatches on the participation of Jiang Zemin and Li Peng in the national census the day before. Premier Li Peng was quoted as saying, "Today, I am taking part in the population census as an ordinary citizen."

If there are ordinary citizens, there must be special citizens. Perhaps we may ask: Is there a time to be ordinary and a time to be special?

• According to a XINHUA dispatch datelined Beijing 28 June, the first meeting of the "Working Committee for Concern to the Next Generation" met in Beijing. In his speech, Committee Chairman Kang Shien [1660 0013 1869] advocated that education in the following five areas should be carried out among Chinese youths: Education on national conditions, education on socialism, education on Marxism-Leninism-Mao Zedong Thought, education on revolutionary traditions, and education on patriotism.

Will there be education on culture, science, and technology?

• The latest issue of DANGXIAO LUNTAN [PARTY SCHOOL FORUM] published in Beijing carries an article on party-people ties. The article says, in the past, the party and the people were inseparable like "fish and water." Today, the relationship between some party members and the people is like that between "frogs and water." They have jumped ashore and will only jump back into the water like frogs when they need the support of the masses.

• In an exclusive report published in ZHONGGUO QINGNIAN BAO, State Council spokesman Yuan Mu recently did some rethinking on the events of "4 June." His rethinking boiled down to the following three points: 1) Underestimation of the seriousness of peaceful evolution carried out by certain Western forces in China. 2) Failure to anticipate the acuteness of class struggle. 3) Underestimation of the extent of corruption by unhealthy trends inside the party.

\* In a feature article entitled "Fiery Month of June and Fiery Passions," GUANGMING RIBAO gave a report on an inspection tour conducted by Premier Li Peng in central China. According to the article, "he visited the village households and factory workshops every day, listening to what the 80 million people of Henan have to say."

#### Not a Rumor

\* According to the magazine ZHONGGUO XINWEN [CHINA NEWS], the Federation of Literature and Art Circles and the Writers Association have again launched an attack on "literature of the wounded" and "literature of the root-seekers." Liu Zaifu [0491 0373 1788], Liu Xinwu [0491 1800 2976] and other young writers were again criticized by name. Xie Jin's [6200 2516] film *The Last Nobles*, which had won wide acclaim overseas, was branded as a "paean for the Kuomintang's loss of domination over the mainland."

\* According to WENHUI DUSHU ZHOUBAO, published in Shanghai, the consolidation of publishing houses across the country over the past six months produced initial results. A total of 38 large publishing firms were forced to "stop operations, close down, merge with other units, or switch to another line of business." Among the more influential publishing houses thus closed down are Taisheng Publishing House, Literature and Ancient Books Publishing House, Sichuan Provincial Science and Technology Publishing House, Science and Technology Publishing House, China Dance Publishing House, and China Opera Publishing House.

\* According to BAN YUE TAN, internal edition, issue No. 10, 1990, an old factory worker in Taiyuan was ridiculed and cursed by his colleagues for having donated 100 yuan to the Asian Games. Among the comments were: "Why are you giving such positive support? Is that because you want to join the party?" "You must have been given a big reward."

\* According to statistics disclosed in an article published in ZHONGGUO FUNU BAO on 22 June, in the 10 years since reform and opening up, some 170,000 mixed marriages between Chinese citizens and foreign nationals have been registered. Among these mixed marriages, 94 percent involved Chinese women marrying foreigners.

\* ZHONGGUO JIDIAN BAO carried a report on 21 June on the clearing of "chain debts" in a number of provinces. It said the government had done a lot of work, but the effects were far from satisfactory. Units are "burdened with new debts before old debts have been cleared." Local protectionism, which is becoming more and more serious, cares only about seeking new credits and is reluctant to repay debts.

\* Beijing has vigorously launched activities of greeting the arrival of the Asian Games with "smiles and fine quality" in its effort to create a festive atmosphere. The following scandalous act on the part of Beijing residents,

however, was disclosed in ZHONGGUO QINGNIAN BAO: In April, several thousand pigeons were set free as rehearsal for the opening ceremony of the Asian Games. After the rehearsal, 500-600 homing pigeons were shot and ended up on people's dining tables.

\* Beijing reckoned that spending by foreign athletes and tourists at the Asian Games would bring substantial income to its coffers. News from Saudi Arabia indicated that, if the Saudi soccer team makes it to the semi-finals, 10 chartered flights of fans will be flown in to cheer their team. Zhang Baifa, chairman of the Asian Games Preparatory Committee, said, "The Chinese team should not put up any fight should it run into the Saudi team. Just imagine how much we stand to gain from 10 plane loads of football fans." (Quoted from HAINAN JISHI, No. 2, 1989.)

#### Bits of Information, for Internal Reference Only

\* YANGCHENG WANBAO revealed some time in June that neighborhood committees in Guangzhou have drawn up indigenous policies of their own to illegally impose "birth authorization fees" on child-bearing couples. For a legal birth authorization certificate to be issued, the following payments will be incurred: Application form, 1 yuan; study fee, 7 yuan; insurance, 19 yuan; medical checkup, 30 yuan; guarantee money, 200-500 yuan, refundable when the woman concerned puts on her contraceptive ring once again after childbirth.

\* According to a recent report in RENMIN ZHENGXIE BAO, there has been a heavy drain of national-level artists away from the mainland. Over the past 12 years, 131 members of the Central Ballet Troupe have not returned from overseas trips, leaving the troupe with just one and a half pairs of first-rate performers. The Central Orchestra has lost 129 members, and the Music Academy has lost 230 members. The report cited poor pay and lack of future as the main reasons.

\* BEIJING QINGNIAN BAO said the current trend of giving newborn babies single-character names has caused great inconvenience for household registration. According to incomplete statistics, there are more than 2,100 Zhang Lis in Tianjin alone. There are quite a number of people with the same given name in the same school, even in the same class. When a certain Li Gang committed a crime, as many as five Li Gangs were arrested.

\* XINXI SHIBAO reported on 4 July that "trade talks with the Soviet Union and East European countries" were held in Harbin. The number of inspection and negotiation delegations to the Soviet Union and Eastern Europe showed a substantial increase in the first half of this year. Sino-Soviet trade has now been pushed to a new high.

\* According to the latest statistics on Chinese cities published in the Beijing ZHONGGUO SHEHUI BAO, the three cities with the highest per capita annual living costs are Guangzhou (2,263 yuan), Haikou (1,681 yuan),

and Hangzhou (1,671 yuan). The three cities with the lowest costs are Hohhot (1,001 yuan); Nanchang (1,012 yuan); and Xining (1,129 yuan).

\* According to statistics published in ZHONGGUO QINGNIAN BAO, the world average for telephone ownership is 14 sets per 100 people. In China, which has a population of 1.1 billion, there are 0.5 sets per 100 people.

\* According to a XINHUA dispatch, the State Copyright Bureau announced that author's remuneration will be raised effective 1 July. Writing fees will be raised from 6-20 yuan per 1,000 characters to 10-30 yuan, with the highest fees not exceeding 40 yuan. Translation fees will

be raised from 4-14 yuan to 8-24 yuan. The book publication tax will go up. Remuneration for song composing and filmmaking will also be raised.

\* GONGREN RIBAO revealed in an article published recently that sacrificial paper money is a common sight in the streets of Wuhan. These sacrificial notes have face values of 100 million and 500 million yuan. They are of similar size and color as 100 yuan bank notes. Printed on these notes are the words "Paper money of the nether world. For circulation in the nether world." They are selling very well at 50 cents per 100 million yuan. When interviewed, a citizen replied in real earnest: "...We have to burn more so they can buy color television sets and refrigerators in the other world."

## NATIONAL AFFAIRS, POLICY

### Industrial Structure, Efficiency Examined

HK310813090 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 6, Jun 90, pp 19-21, 18

[Article by Ma Zhuanjing (7456 0278 2529), edited by An Luming (1344 6424 2494): "Optimize the Industrial Structure To Raise Industrial Labor Productivity"]

[Text] This article intends to explore, in a preliminary way, the influence of China's industrial structure on the industrial labor productivity and the question of how we can improve the industrial structure so as to raise China's labor productivity.

#### 1. The Influence of China's Industrial Structure on Industrial Labor Productivity

At present, in China's industrial structure, the main factors obstructing an increase in industrial labor productivity are the following:

First, the industrial sectors with quite high labor productivity have not been fully developed, and this has restricted the increase in China's industrial labor productivity. Because of the irrationality of China's pricing system, the level of labor productivity in some industrial sectors at present is not entirely determined by the technical level of production and the input of resources, that is, by the output ratio. Rather, it is skewed by the irrational mechanism of distribution spheres and circulation spheres. Despite this, we have been able through wide-ranging comparisons, to exclude irrational pricing elements and discover a number of sectors with quite high labor productivity, sectors such as the chemical industry, oil industry, electronics industry, vehicle industry, metal production industry, and so on. Data show that these sectors with quite high labor productivity have not been fully developed, and this has been a major reason for the low level of China's industrial labor productivity.

Second, the imbalance in the industrial structure is not beneficial to increasing China's industrial labor productivity. The irrationality of the industrial structure is mainly manifested in two aspects: First, the development of the processing industry has been too swift and, by comparison, the development of basic industries has lagged far behind. From 1981 to 1987, the annual average growth of industry overall was 1.1 percent. However, the annual average growth of the metallurgical, electric, coal, and oil industries were 8.2 percent, 7.9 percent, 5.1 percent, and 5.9 percent, respectively. Second, within any single industry, the product structure is irrational, producing a situation where both shortages and overstocking coexist. For example, the production capacity of the machine-building industry far exceeds demand, but because of the irrationality of products, there is still a need to import a great volume of such products from abroad. From 1981 to 1985, the value of

mechanical and electrical equipment imported totalled 42,153 billion yuan, about one-third of the total imports during that period. The major problem produced by the imbalance in the industrial sector is that it has resulted in a great volume of resources laying idle and meant that a great volume of production capacity has not been brought into play. Thus, the gross industrial output value has not reached the level allowed by current resource conditions and industrial labor productivity has not achieved its due level.

Third, the low level of the technical structure of industry has obstructed the raising of China's industrial labor productivity. If we look from the angle of the proportion which heavy industry and the chemical industry constitute in gross industrial output value, the current level of the industrial structure in China is equivalent to the level of the developed countries in the 1960's. However, the level of China's industrial technical structure is far lower than the level depicted by the quantitative indicators. Let us take the mechanical and manufacturing industry as an example (the technical level of the mechanical and manufacturing industry generally reflects the level of the technical structure of a country's industry). In China at present, there are 3.2 million to 3.4 million machine tools, second only in number to the Soviet Union (4 million). However, the vast majority of these are ordinary machine tools and some from the 1920's and 1930's are still in use. Meanwhile, in Germany, Japan, and other developed countries, numerically-controlled, digitally-controlled, and other high-technology machine tools already constitute 20-30 percent of the total. The backwardness of the technical equipment in the machine-building industry has led to a backwardness in the technical level of the products produced by the industry. At present, only about 8 percent of the products of China's machine-building industry have a technical level equivalent to that of advanced countries at the end of the 1970's and beginning of the early 1980's. In this, we are 20 years behind the developed countries.

The low level of the technical structure of industry restricts the raising of China's labor productivity from two angles. First, at present, over 80 percent of the technical equipment used by China's industry is supplied by the domestic machine-building industry. However, the backwardness of the technical equipment of the machine-building industry means that it is unable to supply high-level machinery for use in other sectors. This has inevitably led to a decline in the technical level of China's industry overall and seriously affected the raising of industrial labor productivity. Second, reform and opening up over the last few years has led to an increase in the people's income level around the country, and thus there has been rapid growth in the demand for high-grade consumer products. Because China's machine-building industry, electronics industry and raw materials industry cannot provide high-level technical equipment or parts and materials which perform well, in satisfying the production needs of the newly-emerging industries, we have no option but to rely on a large



volume of imports. This situation where demand requires imports has meant that the development of the newly-emerging industries has been unable to spur on the growth of overall industry and this in turn has meant that China has lost opportunities for new growth by industry and for raising industrial labor productivity. At the same time, in a situation where industrial growth depends to a great degree on imports, whenever there are changes in the foreign exchange situation and changes in the international market, domestic industrial production is affected, and it is thereby subject to fluctuations. Clearly, in a situation where industrial production is subject to frequent fluctuations, there is no possibility of stable and sustained improvement in industrial labor productivity.

Fourth, the situation of there being the same industrial structures in all regions has had a negative effect on the raising of the country's industrial labor productivity. In recent years, this trend has been seen in the changes occurring in the industrial structures of various areas of China. Although the different areas have very major differences in terms of their resources and economic and technological bases, their industrial systems have become increasingly similar. First, the similarity between the industrial structures of various areas leads to the dispersal of production, and then there is no way to implement the centralized productivity which is required by large industries and which leads to rational batch production and economies of scale. Second, it violates the principle of coordinated division of work, meaning that the various areas are unable to stress their strong points or avoid their weak points and unable to give play to their superiorities. The overall economic benefits are thereby reduced. Third, this has led to an excessively swift development of processing industries, production capacity is seriously under-utilized, and there has been a great waste of resources. The final result of these situations is that gross industrial output value cannot reach its due level and China's industrial labor productivity has dropped.

## **II. Rationally Readjusting China's Industrial Structure and Promoting an Increase in Industrial Labor Productivity**

The above analysis shows that an irrational industrial structure is one of the major reasons for the low level of China's industrial labor productivity. Clearly, if we want to achieve a great increase in the level of China's industrial labor productivity, we have to carry out a readjustment of our industrial structure. For quite some time to come, we should stress work in the following aspects:

First, we should take technical transformation as the major measure so as to raise the production technology levels of the machine-building and electronics industries. At the same time, we need to foster new high-technology industries so as to achieve a quite great raising of the level of China's industrial structure. In the process of readjustment, on the one hand, we must increase the

proportion of the industries which have quite high labor productivity and, on the other hand, we must raise the technical structure level of industry. The crux of the problem lies more in the latter aspect. In the next five to ten years, we need to make efforts to grasp two aspects of work. The first is to take technical transformation as a major measure, so that major breakthroughs are achieved in the technology of our machine-building and electronics industries and, on this basis, further development of production is realized. The second is to centralize personnel, funds, and materials to foster and support one or two newly emerging, high-technology industries. In this respect, we should strive to form mature technologies by the end of the century, so that they can be used in large-scale commercial production.

There is an opinion at present that the scale of our machine-building industry is too large and that it should be cut back. However, if we engage in deep-going analysis, we will discover that our machine-building industry is just "bloated". Of the current 3 million-plus machine tools, only about 1 million are being properly used and the majority of these are ordinary machine tools. Further, unlike the general processing industries, the machine-building industry provides technical equipment for other sectors of the national economy and its technical level determines the technical level of all industry, and, in fact, the whole national economy. It thereby determines the level of productivity of China's industry. Thus, when deciding policy, we need to treat the machine-building industry separately from general processing industries and provide it with sufficient funds to carry out the renewal and transformation of the industry's equipment and machinery. In this way it will be possible, within three to five years, to greatly raise the technical level of China's machine-building industry. This will in turn raise the technical equipment level of China's industry to a new level and the situation where we only see slow improvement of industrial labor productivity can be changed.

The electronics industry is the industrial sector which has seen the fastest development in the 20th century. Because of its swift technological progress, its labor productivity has always been in the front ranks of the various industrial sectors. In recent years, there has been steady growth in the domestic demand for electronic products, and demand in the international market has also continually expanded. If we adopt support and protection policies, the technical level and production capacity of China's electronics industry will see quite great improvement and it will be one of the leading industries. In this way, it will be able to spur on the rapid development of quite a number of industrial sectors and will also be able to greatly promote the raising of China's industrial labor productivity.

Since the 1970's, basic changes have been occurring in the industrial structures of developed countries. The speed of development of traditional industries such as the iron and steel, machine-building, and vehicle industries has slowed while the new high-technology industries

such as the electronic computer industry, aerospace industry, and biological engineering industry have seen rapid growth and realized major achievements. According to predictions by experts, by the 2020's and 2030's, the structural readjustment of industry in developed countries will be completed and an industrial structure with new high-technology industries as the leading industries will have been formed. This means that the industrial structure level of the developed countries will see a new leap upwards, their entire industry will be built on a completely new technological base, and industrial labor productivity will certainly see a great increase. If China does not adopt appropriate policies, then, before too long, the overall technological level of China's industry will lag further behind and the disparity between the level of China's industrial labor productivity and that of developed countries will become even wider.

At present, the question is this: Does a developing country like our own have the capability of developing new high-technology industries? I believe that it does. This is because this technological revolution has led to technological breakthroughs in many respects and this has provided a number of new industries which have developed in parallel. This situation has meant that no country can hold the leading position in all the new technological fields, and that one country can only be leader in one or a few fields. Thus, developing countries can centralize their strengths to capture one or two of these spheres, without giving rise to the intense competition seen in the several technological revolutions in the past. In addition, at present, there are some areas of new technology in which China certainly does not lag behind. For example, we have developed a super computer which is capable of one billion calculations per second. In the field of space technology, we have reached maturity in terms of satellite launch and recovery and are one of the few countries in the world to have mastered this technology. With these new technologies as a base, China certainly has the prerequisites for establishing one or two high-technology industries. Thus, in the 1990's, China should concentrate strengths, speed research in and develop new technologies, and make good preparations for commercial production. We should strive, by the beginning of the 21st century, to have established one or two new groups of industries centered around aerospace industries and electronic computer industries. In this way, we will have grabbed the opportunity and China's industrial structural level will see quite a great improvement and industrial labor productivity will reach a new level.

Second, resolving the problem of imbalance in the industrial structure, from both external and internal angles, so as to create conditions for increasing labor productivity.

First, we need to start with the external aspect and alleviate the contradictions caused by the incompatibility of basic industries and processing industries. In the next

few years, we need to increase investment in basic industries and strive for quite swift development of the energy and raw materials industries. At the same time, we must firmly put great efforts into reducing the scale of the processing industry and restraining the blind development of the processing industry. We need to conduct, in accordance with state industrial policies, a sorting out of processing industry projects which are being proposed and which are already under construction. New projects which will be involved in producing goods which are already over-supplied should all be stopped. Those processing industry projects which have been completed and have been put into production should also, in turn, be subject to sorting out. All enterprises which have poor economic results and which are producing goods which are already being over-supplied, should be subject to specific measures, so as to force them to shut down, suspend operations, merge, or switch to producing other products. In order to ensure that these industrial structure readjustment measures see real results, there will be a need to strengthen central power over finances, while jurisdiction over the examination and approval of projects should be appropriately taken back by the upper levels. Otherwise, the central authorities will have no money and no power and strengthening basic industries while cutting back on processing industries will be just empty talk.

Second, we need to make efforts internally. That is, through technological transformation, and improving management, we must reduce the energy consumption and raw material consumption of China's industries, and alleviate the contradiction between basic industries and processing industries. Just relying on increasing investment in energy and raw materials industries and relying on the expansion of supply capacity to resolve the current contradictions will result in an insurmountable contradiction in terms of funds, goods, and materials. However, the adoption of technical transformation, management improvement, and material consumption reduction measures to resolve the contradictions between basic industries and processing industries will allow quite good results to be achieved within a short period and with little investment.

Third, we need to put efforts into changing the situation in which regional industrial structures are the same, and implement a situation in which there is coordinated division of work and rational batch production of products, so as to achieve economies of scale. This is another important measure in raising labor productivity. This work must be divided into two steps: The first step is for the central authorities and government at all levels to appropriately take back the power to examine and approve new construction projects. Large-scale major projects should be examined and approved by the central authorities, while medium-size projects should be examined and approved in the provinces. After this, there must be examination and assessment of new projects which are under construction, in accordance with the



principle of specialized division of work and achieving a rational scale of enterprises for the various industrial sectors. Any projects which do not accord with the principle of specialized division of work and do not meet standards for rational batch production of products should not be allowed to proceed. In this way, the trend seen in various areas of vying to increase processing industry projects will be stopped and the further exacerbation of the situation where all areas have the same industrial structure will be prevented. The second step, which is based on the first step, will be a sorting out and readjustment of existing enterprises along the same principles. If key construction projects in the various areas will provide a production capacity in excess of the volume of market demand, then in accordance with their economic benefits and technical levels, some should be closed down or should change their line of products. If their overall production capacity does not exceed the volume of market demand, then inter-regional mergers between enterprises could be arranged, so that they achieve rational batch production volumes. After these two steps are completed, a turn for the better will be achieved in the situation where regions all have the same industrial structure, the degree of rationalization of enterprise organizational structure will be raised and it will be possible to organize specialized coordination. This will allow rational batch production to be realized, allow for economies of scale, and raise the level of China's labor productivity. If we are to guarantee the smooth implementation of the abovementioned work, apart from strengthening centralization and planning, and utilizing a certain amount of administrative measures, it will be necessary to readjust economic interests relationships and bring into play the role of economic levers. The emergence of the situation where various regions all have the same industrial structure is mainly due to the fact that the price of the products of basic industries is too low. The price of products of processing industries is high and thus they allow good profits. In the situation where local power has been continually expanded, local investment has been funnelled into processing industries. Thus, if we want to change this situation, we need to reform the irrational price structure, appropriately raise the price of energy and raw materials, or reduce the price of manufactured products, so as to channel local investment into basic industries. At a time when the conditions are not ripe for readjusting prices, we can adopt other measures, the first of which is putting into order the interests relationships between the various sides. For example, between raw materials producing provinces and manufacturing provinces we could implement profit return measures. That is, the resources producing areas could supply energy and raw materials to the manufacturing areas in accordance with current prices, while the manufacturing areas would return a portion of profits to the resource producing areas. In this way, the contradictions between the two would be alleviated and the difficulty of achieving a readjustment of the regional industrial structure would be reduced.

### Improving Management of Guidance Plans

90P300764 Hong Kong CHING CHI TAO PAO  
in Chinese No 32, 13 Aug 90 p 19

[Summary] In recent years, more and more economic activities have been conducted under state guidance plans. An estimated 45 percent of China's total industrial production currently falls under either central or local government guidance plans. However, past practice has shown that guidance plans are very difficult to implement and usually result in two extremes. One is to treat the guidance plan as a directive, particularly concerning products in short supply. Various government offices intervene repeatedly, applying administrative means to influence enterprise production and thereby hampering enterprise independence and economic efficiency. The other extreme is to ignore the guidance plan totally and allow production to be guided entirely by market forces.

To adhere effectively to the principle of combining planned economy and market regulation, authorities concerned recommend the following measures to improve management of guidance plans.

- Stress the seriousness of guidance planning and readily adjust its scope and proportion to suit the state's industrial policy.
- Manage plans according to individual product classification and degree of importance.
- Assure orderly circulation of those products that concern people's daily lives and those that have a bearing on the manufacture of key exports that earn foreign exchange.
- Analyze and forecast the supply and demand of various products on a timely basis and provide such information to enterprises for operational reference.
- Improve the external environment. Planning and management departments at all levels must coordinate with one another to mobilize resources and take appropriate economic measures to guide the plan to fruition.

## PROVINCIAL

### Beijing Improves Telecommunications Capacity

OW1309031990 Beijing XINHUA in English  
0117 GMT 13 Sep 90

["Beijing Backgrounder: Beijing's Telecommunications Improved"—XINHUA headline]

[Text] Beijing, September 13 (XINHUA)—Beijing, China's capital, has greatly improved its telecommunications capacity and technology. It now has access to all the countries and regions in the world.

Beijing's telephone networks, as the base of its modern telecommunications, have developed rapidly in recent years.

According to statistics, Beijing's total telephone switchboard capacity was 236,400 lines in 1988. By the end of this year, however, the city's total capacity will reach 480,000 lines. Over 65 percent of the switchboards are program-controlled. Beijing has now 780,000 telephones—7.8 telephones for every 100 citizens.

Beijing's optical fiber telecommunications also enjoy rapid development. The optical fiber cable system is applied to most trunk lines between switchboards. About 450 km of optical fiber cables have been laid in Beijing.

Since 1988 portable telephone networks have made their debut, with 16 stations and 240 high-frequency communication channels servicing 6,000-7,000 subscribers.

Meanwhile, Beijing has become the center of China's satellite telecommunications. It has five satellite ground stations for international telecommunications and three for domestic telecommunications.

Beijing's long-distance telephone network capacity is 6,700 lines with access to 521 cities, and its international capacity is 2,800 lines, providing access to 182 countries and regions.

#### **Materials Minister Inspects Anhui Province**

*OW3108134390 Hefei Anhui Provincial Service in Mandarin 1000 GMT 30 Aug 90*

[Text] Minister of Materials Liu Suinian inspected this province from 10 to 19 August, giving guidance on work related to materials. Leading members of the provincial party committee and the provincial people's government, including Lu Rongjing, Fu Xishou, Yang Yongliang, and Shao Ming visited him during his inspection tour. Vice Governor Shao Ming accompanied Minister Liu Suinian on his inspection of [passage indistinct] in Hefei. They also heard reports from local governments and responsible comrades of various materials departments.

During his inspection trip, Liu Suinian said, "Since the Third Plenary Session of the 11th CPC Central Committee, a series of reforms have been carried out as regards the circulation of materials to invigorate the market and activate the economy. Those efforts have promoted the development of industry and agriculture. However, judging from all the facts, the circulation of materials still does not meet the need of the planned commodity economy." [passage indistinct]

Liu Suinian emphatically pointed out that various supply departments must satisfy the need of industrial enterprises, activate circulation, and deepen the reform

of the system of supplying materials. It is necessary to socialize and modernize the system of the circulation of materials. In carrying out the reform, the fundamental thing is to pay attention to combining macroeconomic control with micro-flexibility and to establishing a planned and unified market of means of production as well as a highly efficient, smooth, and regulated circulation system as quickly as possible.

#### **Eurasian Continental Bridge To Benefit Gansu**

*HK1409091090 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 13 Sep 90*

[Excerpts] Historically, the world-famous Silk Road was once an outlet of Gansu's economy and culture to outside the country. Today, the new Eurasian continental bridge which has now opened to traffic is to expedite the pace of our province's opening up to the outside world. [passage omitted]

The opening of the new Eurasian continental bridge will change the closed status of our province. Along this international railway, which runs nearly 2,000 kilometers across Gansu Province, are situated some major industrial cities, including Tianshui, Lanzhou, and Jinchang. A customs house has been established in Lanzhou, so exports no longer have to make a detour through customs in other places. They may now directly reach the market in any of the European or Middle Eastern countries via the Eurasian continental bridge after passing Lanzhou's customs. The imports from Europe and the Middle East may also come straight to Lanzhou. Compared with the past, procedures are simplified, transportation distances are reduced, freight expenses are slashed, and time is shortened, which provides extremely favorable conditions for our province's opening up.

After the Eurasian continental bridge is open to traffic, Alataw Shankou becomes the gate to the inland of China, and Lanzhou becomes an important pivot on the Eurasian continental bridge, a base and transfer station for foreign trade and entrepot trade. Lanzhou is now crisscrossed by many arterial railways such as Longhai, Lanzhou-Xinjiang, Lanzhou-Qinghai, and Baotou-Lanzhou. After the Eurasian continental bridge is open to traffic, the export goods from Jiangsu, Sichuan, Ningxia, Qinghai, Shaanxi, and other provinces and regions will all be sent to Lanzhou, grouped at the key substations of the Lanzhou West Rail Station, and then transported abroad. Imports will also be grouped at the same station and sent to all parts of the country.

Our province is geographically blessed as it enjoys the advantages of the two-way opening up between the east and the west. With the expansion of international exchanges, the level of opening up of our province will also be further enhanced.

### Heilongjiang Sets Up Independent Power Company

SK0109040190 Harbin HEILONGJIANG RIBAO  
in Chinese 7 Aug 90 p 1

[Text] Heilongjiang Province established a power company on 6 August. From that day on, the province has begun to separate its managerial system of power industry from its governmental administration.

The company is a large central-level power enterprise and subordinate to the General Power Corporation of Northeast China. It has 36 subordinate state-run or collective-run enterprises in charge of power production, power supply, capital construction and installation, repair and construction, education, scientific research, and designation, which have more than 78,000 staff members and workers. At present, the company's installed capacity reaches 4.245 million kw. The company is enforcing unified management among power development, facility construction, production, and sales and seems to be imbued with the position of independent legal person or of entrusted legal person in handling matters with the General Power Corporation of Northeast China with regard to enforcing the business and operation responsibility systems and the accounting system at all levels within the corporation.

In line with the operation mechanism of enterprises, the company will accelerate the pace of developing power production and effectively conducting power undertakings in the province and will gradually adapt itself on the track of being responsible for its own accumulation and development. Hereafter, the provincial power industry bureau will exercise governmental functions only in managing or running power plants and conducting management over the affairs of the power industrial front.

### Industrial Output Value Drops in Heilongjiang

SK1209081390 Harbin HEILONGJIANG RIBAO  
in Chinese 11 Aug 90 p 1

[Text] According to the statistics compiled by the provincial statistical bureau, in July the total provincial industrial output value amounted to 3.821 billion yuan, a decline of 1.7 percent from the same month last year.

From January to July this year, the total provincial industrial output value declined by 2.4 percent from the corresponding period last year. Of this, the output value in light industry declined by 2.9 percent; that in heavy industry, 2.1 percent; that in state-owned industries, 2.9 percent; and that in the collectively owned industry, 0.2 percent.

Out of the 14 prefectures and cities in the province, Mudanjiang, Jixi, Shuangyashan, Qitaihe, and Daqing prefectures and cities maintained a trend of steady growth in their production; and Harbin, Qiqihar, and Jiamusi, which are large and medium-sized cities, as well as Yichun and Daxinganling, which are forest zones, continued to witness a decline in their production.

In terms of products, the production of energy resources and major raw and semifinished materials showed a steady increase; and the production of light and textile industrial products also began to pick up.

Since the beginning of this year, although the prices of the means of production have been relatively stable, production costs of enterprises have still exceeded the budgeted limit by a wide margin. The cost of comparable products of the enterprises at or above the county level which exercise independent accounting has exceeded the budgeted limit by 9.7 percent. This has primarily resulted from the decline in production, increases in the fixed expenses in the cost, and a substantial increase in the interest payment. In the first half of this year, the total amount of profits achieved by enterprises, including taxes to be paid to the state, dropped by 24.6 percent from the corresponding period last year. Of this, the profits achieved by enterprises declined from 689 million yuan in the same 1989 period to minus 282 million yuan. The proportion of enterprises operating at a loss reached 26.7 percent, and the amount of deficits of these enterprises went up by 48.1 percent.

Industrial products still have been stockpiled in serious quantities. In the first half of this year, income from products sold by the enterprises at or above the county level which exercise independent accounting dropped by 2.4 percent. This led to an increase of 2.638 billion yuan, or 36.4 percent, in the funds occupied by finished products over the same period last year, thus preventing most of the floating fund loans from being circulated.

The thoughtless pursuit of high output value has again emerged in some prefectures, cities, and counties. For the purpose of fulfilling the targets of contracts, a few cities and counties have adopted the method of delaying the examining and repairing deadlines; and some others have even forced those enterprises whose products are unsalable to resume production. Such tendencies are unfavorable for the sustained and steady development of the economy. In the next few months, enterprises should, in line with the demands of the national production working conference, exert great efforts to readjust the product mixture, increase sales, and improve economic efficiency. At the same time, enterprises should guard against blind pursuit of high output value.

### Jiangsu's Nantong City Plans New Airport

OW1309010790 Beijing XINHUA in English  
0039 GMT 13 Sep 90

[Text] Nantong, September 13 (XINHUA)—Preparation is under way for building a modern airport in Nantong, one of China's 14 open coastal cities in Jiangsu Province.

According to Huang Yukai, chief engineer in charge of the project, the airport covering 11.33 hectares will be located on the outskirts of the city.



The project will require a total investment of 78 million yuan (about 17 million U.S. dollars).

Upon completion in 1992, the airport is expected to accommodate Boeing 737 and other medium-sized planes.

Located on the north bank of the Yangtze River near the East China Sea, Nantong is provided with fine economic conditions.

### Liaoning Continues To Absorb Foreign Funds

OW1309183290 Beijing XINHUA in English  
1458 GMT 13 Sep 90

[Text] Shenyang, September 13 (XINHUA)—Jinzhou City in northeast China's Liaoning Province has 147 enterprises which have economic, trade and technical co-operative relations with 21 countries and regions worldwide.

So far, 171 co-operative projects involving 186 million U.S. dollars have been contracted. Among them, 124 are imported technical items.

There are also 16 foreign-funded enterprises in the city, ten of which have gone into production and are expected to earn three million U.S. dollars in foreign exchange this year.

This has been the result of the rapid construction of basic facilities in the city over the past 40 years.

Now the city has 1,790 industrial enterprises above township-level—346 of them are state-owned, and 317 of their 1,300 kinds of products have won provincial awards.

Jinzhou is located in the Liaoxi Corridor, a transportation juncture between northeast China and north China. The city now has four main railways and 126 highways. The Beijing-Shenyang railway and highway also run through the city.

A sundry goods wharf with an annual handling capacity of 350,000 tons was put into operation last October and two 10,000 dwt berths will be set up by the end of this year.

The expansion project of Jinzhou Airport is well under way and the airport is expected to service medium-sized passenger planes by the end of this year.

Jinzhou is also rich in natural resources, such as coal, petroleum, natural gas, gold and silver. The proven petroleum deposits reach 38 million tons.

To attract more foreign investment, a series of policies, such as measures to encourage overseas businessmen to invest in Jinzhou, preferential policies for Taiwan compatriots, and management measures concerning labor service exports have been set up by the municipal government.

### Proposals To Solve Shanghai's Economic Problems

90CE0333A Shanghai SHANGHAI JINGJI  
[SHANGHAI'S ECONOMY] in Chinese No 3,  
30 May 90 pp 17-21

[Article by Shi Huiqun (2457 1920 5028), Zhu Zhanliang (2612 1455 5328), Zhu Linchu (2612 2651 2806), Cen Zhigen (1478 1807 2704), Zhang Chengjun (1728 2052 6874), Lu Daosheng (7120 6670 3932), responsible editor: "Major Economic Problems Facing Shanghai in 1990 and Proposed Solutions"]

### [Text] Major Problems Facing Shanghai Economy in 1990

Problem 1: The continued sluggish market poses the stable development of the Shanghai economy with a grim challenge. First, there is no change in the state policy to control fixed assets investment and institutional purchasing. Second, as far as Shanghai itself is concerned, production has been rising faster than consumption, and supply is slightly ahead of demand. Third, citizens are still postponing purchases, hoping to save money and make purchases later. With these three factors, and barring significant changes in the objective economic environment, the Shanghai market will remain sluggish. And when the market stays sluggish for an extended period of time, fund shortages worsen and industrial product is not adjusted in time, so a temporary downturn in the economy is inevitable, which will adversely affect the ability to provide effective supply and exacerbate the fundamental imbalance of demand exceeding supply. As soon as surplus social purchasing power is unleashed on the market, heating it up rapidly, new economic disruptions may result because of a weakening of adaptive capabilities. Thus, the sluggish market is the number-one problem we face as we seek stable economic development amid economic rectification in 1990.

Problem 2: Fund shortages will worsen. First, as much as 100 billion yuan in commodities and materials are sitting in warehouses across the nation and "triangular debts" amount to 200 billion yuan. If the market does not rebound, not only will new investments fail to stimulate production and clear the "triangular debts," but they will also quickly join the present goods in the warehouses or become new "triangular debts." Everybody will continue to be in arrears in loan repayment. Second, as production in the municipality expands, the prices of raw materials soar, and exports rise, Shanghai's demand for funds will increase and the gap between the supply and demand of funds will remain quite wide. The shortfall in the overall volume of funds will jeopardize the normal functioning of all sectors in Shanghai, including production, construction, and circulation, and will significantly hamper economic development in 1990.

Problem 3: Hemmed in by a variety of factors, the adjustment of the industrial structure is limping along.

To begin with, the existing system constrains the further adjustment of the industrial structure. Even as it adjusts its structure, Shanghai industry must also ensure that it fulfills its tasks of paying taxes and turning over profits to the state and making contributions to the central government. Preoccupied with the need to meet their contracting base figures and their mission of exporting to earn foreign exchange, enterprises are neither motivated to nor interested in technological transformation and structural adjustment. Second, there is no guarantee that investments needed for adjustment will be available. Shanghai's economic structure, which evolved gradually over a long period of time, is rather rigid. It will take a tremendous amount of funds and materials to adjust and transform it. At a time when the double-tight policy remains in place and fund shortages are acute, any attempt to increase investment will be constrained both by the national drive to cut back on the scale of fixed assets investment and by the municipality's own limited financial resources. As the municipal government pays out more and more financial subsidies in a time of fund shortages, it is hard to get much done by way of structural adjustment. Since September 1989, sales have been declining on a soft market. Some factories have suspended production, throwing tens of thousands of people out of work. This situation has put social stability under enormous strains. The further adjustment of the industrial structure and the suspension, closing, merging, and conversion of enterprises will create more redundant workers and put social stability under even more severe strains at a time when an unemployment relief system is nonexistent. Assuming that political and economic stability is not affected, how boldly we can move on the front of industrial structural adjustment is an issue that urgently needs to be addressed.

**Problem 4: Making industrial enterprises more profitable presents yet more problems.** First, although the supply of coal and electricity has improved, the shortage of funds and some raw materials will not be eased considerably. As long as the market remains soft and the tight money policy becomes even tighter, industrial production is not likely to pick up in a major way. Moreover, since the central government has abolished subsidies on pigskin, wadding cotton, soap-making oil, grain for the unit, and type of work in production, the municipality will follow suit by abolishing these subsidies for enterprises and units, which means their costs will go up. Third, because price control remains a daunting task in 1990, it will not be possible to adjust the prices of Shanghai industrial products significantly in the new year. All this complicates any effort to raise the profitability of industrial production in 1990.

**Problem 5: Shanghai's export drive lacks staying power.** 1) The shortage of funds and some raw materials seriously hampers any effort to find new sources of industrial exports. Although exports have been rising at about 10 percent each year for the past several years, Shanghai exports have hardly grown at all, with the value of exports procured hovering around 10.2 billion yuan each

year. Industrial output is projected to grow 4 percent this year, which really means little room for growth in exports. 2) The export deficit crimps export growth. The adjustment of the exchange rate was one measure intended to increase exports. But with the prices of industrial capital goods soaring, the foreign trade sector and industrial enterprises have profited little. Take the textile industry, for instance. Increases in the adjustment prices of textile products and imported cotton have already offset the 1 yuan adjustment in the exchange rate. Because of increases in the procurement prices of food, livestock, native products, and other agricultural byproducts, the exchange rate of the companies involved has exceeded 5 yuan on the average, even 6 yuan in some cases. Meanwhile, the finance department will not be able to come up with more funds to subsidize exports. Thus, any effort to increase exports in 1990 will be seriously hampered by export losses. The 1990's will be a time of major shift in the international economic and political environments, which will create new difficulties for Shanghai's export drive and its effort to utilize foreign capital. High-tech products are taking up a larger and larger share of world trade, traditional products are being upgraded, and the prices of raw material-based commodities will continue to decline. Since most of Shanghai's exports are labor-intensive products, it will continue to lose ground as an exporter. The trend toward economic regionalization and the formation of economic blocs, spearheaded by North America, the European Community, and Japan, will continue to gain momentum. Regional trade protectionism is on the rise. Changes within the Soviet Union and Eastern Europe may unleash a tidal wave of capital and technology flowing from the industrialized West and the petroleum-exporting nations in the Middle East to the Soviet Union and Eastern Europe. All this makes it that much more difficult for Shanghai to import foreign capital and expand foreign trade.

**Problem 6: It has become even more difficult to balance the government budget.** On the one hand, industrial output, the primary source of taxes and revenues, is projected to grow a mere 4 percent in 1990, and social commodity retail sales to grow 16 percent, barely maintaining the 1989 level after discounting inflation. Thus, one cannot really hope to increase government revenues by expanding output and receipts. On the other hand, the central government is set to unveil some fiscal and tax measures with wide-ranging impact intended to increase its power to regulate and control the budget. To help the central government overcome its fiscal problems, Shanghai must make further contributions on top of its existing 10.5 billion yuan commitment. Balancing the budget is a key part of economic rectification. All facets of economic development are closely related to fiscal resources; we need financial subsidies to stabilize prices, to expand exports, and to adjust the structure. The contradiction between the rigid growth of spending and the slow growth of revenues will pose even more problems for Shanghai's pursuit of a balanced budget in 1990.

### The Thinking Behind Our Responses

#### A. Adjust the Product Mix and the Industrial Structure Mainly by Adjusting the Stock of Assets

1. Adhere to intensive development. Tap the potential of the stock of assets to the full. Strive to go high-tech. Upgrade products and increase their added value and profitability. To begin with, conduct a comprehensive assessment based on the unit human, financial, and material input and output standards. All departments in charge of industry must rank the enterprises in all trades in order of merit. The enterprise too must analyze the potential of its asset stock carefully, namely the profit that unit raw materials, plants, and funds can generate. Enterprises whose profit margin has fallen sharply in recent years in particular must look inward to tap their internal potential and take the road of intensive development. Next, we must take pains to increase the profitability of intensive development. Seek profits through technological progress. Set priorities. In the case of products that are exported to earn foreign exchange, or which are import substitutes, we must mount a "three-in-one combination" technological offensive, cross-fertilizing, transplanting, and grafting high-tech to bring about leap-frog development, which will lead to high added value.

2. Participate unwaveringly in international competition and make the product mix even more export-oriented. As far as current exports are concerned, they should become even more attuned to the demand of the international marketplace, we should make them match advanced international levels. The aim is to "have both ends abroad and achieve high-volume imports and exports," expand markets, and increase the percentage of exports. In the case of products that are now sold domestically but show promise as exports, we should orient ourselves to the international as well as domestic markets and seek to open up potential markets by continuously turning out new products that are advanced in technology, superior in quality, and competitive in prices. To draw closer to international standards, we should gradually effect two changes in the product mix, from primarily extensive labor-intensive products to primarily technology-intensive multiple-processed products, from low-quality, low-priced batch varieties at the low end of the market to primarily good-quality, high-priced, upscale products with a strong batch variety adaptability. That way our products will become more competitive and more export-oriented.

3. Organize socialized specialization centered on products and bring about the optimal combination of capital goods in the course of adjustment. The adjustment of the product mix must make the most of the existing stock of assets. A variety of methods, such as integration, contracting, and transfer with compensation can be used to adjust or reorganize the various trades so that plants, funds, raw materials, and labor force are fully utilized. This is an essentially intensive, effective, and feasible approach to adjust the structure and develop production

at a time when the state is trimming the scale of capital construction and tightening funds. In the course of adjusting the product mix, we must diligently encourage the development of new products. Provided the market demand is there, the product is up to par, and the enterprise has the capability, an all-out effort should be made to develop or upgrade the product. The time lag between research and development, production, and marketing must be shortened, increasing the effective supply and improving the profitability from "temporal difference." In allocating financial and material resources, departments in charge of industry should give priority to leading export-oriented industries and products as specified in the plan, concentrating their support on the best so that production can attain a large scale quickly. They should take drastic steps to limit or weed out products and enterprises that are low in energy level and high in material consumption and have small profit margins, as well as enterprises that are doing adequately at the moment, but whose products do not have staying power, transferring their assets to more promising industries and enterprises.

#### B. Revive the Domestic Market, Open Up the International Market Across the Board, and Speed Up the Development of an Export-Oriented Economy

First, take various flexible measures in such areas as funding, marketing policy, sales promotion policy, and pricing policy in order to gradually turn the sluggish domestic market around and ensure market stability. 1) Analyze the market structure carefully and come up with a response to each and every one of the reasons that have caused the market to weaken. In the case of products that are highly consumption-elastic, especially the inflated part of the market made up of advance consumption, unjustifiable consumption, excessive consumption, and lopsided consumption, we must reexamine the level of consumption and overhaul or limit them in order to ensure a normal and rational market consumption structure. 2) Adjust investment priorities and continue demand-led production. Staying within the framework of the "double-tight policy," we should change our uniform lending policy. It is proposed that starting funds be invested in commerce to procure products that play a major role in stabilizing and enriching the people's living and industrial raw materials that are consistent with industrial policy, so as to expand the output of products that are attractive, highly marketable, and much sought-after, thus invigorating the market. 3) In accordance with the principle of market specialization, we must select our target markets and speed up commodity circulation. To begin with, vigorously unblock the commodity circulation channels between the city and the countryside to help industrial products make their way to the countryside. Next, increase commodity circulation between Shanghai and other parts of the country. Make Shanghai industrial products an even more influential example to their counterparts in the interior. There should be reasonable proportional relationships between the Shanghai market, the domestic market, and the international market in



terms of sources of commodities. 4) Adopt flexible marketing methods to increase sales. Methods of settlement may include installment payments and aftersale payment. That way, a lack of funds would not prevent a sale. Assuming that overall price level remains stable, we should allow the prices of some commodities to float within a set range in order to vitalize the market and stimulate demand. In commerce, both presale and aftersale services should be improved to set the customer's mind at ease. 5) Monitor market trends closely and establish a market advance warning system. Even as we stimulate the market, we must be on guard against the market disruption that may follow a sluggish market in response to a reduction in the output of some lines of products at home, a cutback in imports, and other price and psychological factors.

Second, given the sluggish domestic market and insufficient demand, we must mount an export drive to pave the way for the accelerated development of an export-oriented market. 1) Intensify foreign trade reform by pushing the export agent system and industry-trade cooperation. In 1989, the textile industry launched the export agent system across the board, introducing competitive and risk mechanisms into production enterprises and foreign trade enterprises. More than six months of practice prove that this measure has gradually made the interests of both parties—industry and trade—coincide and has mobilized the subjective initiative of export production enterprises up to a point. At a time when we are short of funds, raw materials, and energy, it has been instrumental in checking the decline in exports. But the export agent system must be further improved. In a number of developed nations where the agent system is popular, a considerable portion of enterprises still do their own exporting. It is proposed, therefore, that even as we continue to expand the agent system, we need to put together a number of enterprise groups whose goal is to expand exports and bring production, supply, and marketing under one roof. Moreover, some production enterprises should be given the power to conduct foreign trade. The creation of export groups should take us one step closer to specialization and coordinated operation, thereby upgrading product quality and giving us the benefits of economies of scale. It should also help Shanghai develop some flagship exports and expedite the rationalization of its export mix. 2) Open up the new international market across the board using a variety of methods. Not only must we invite foreigners to come here to do business, but we must also go abroad to establish trade, marketing, and information networks. Use foreign trade exhibition centers overseas effectively. Increase the influence of Shanghai products abroad. Set up a foreign trade exhibition center in Shanghai itself to attract visitors from all over the world. Besides working hard to consolidate our existing markets, we must be energetic in developing trade with the Soviet Union and Eastern Europe along with trade with the Third World. Africa and the Middle East offer tremendous potential. According to statistics, Africa imports \$76 billion worth of commodities each

year. There is a relatively close fit between Africa's consumption level and demand structure, on the one hand, and Shanghai's product mix, on the other. Back in 1980, two-way trade between Shanghai and Africa was a mere \$327 million, dropping to less than \$200 million by 1988. Shanghai is well-placed technically and price-wise to capture Middle East trade. Given the current situation at home and abroad, in particular, we must study the Third World situation carefully, train personnel, draw up a development plan, beef up our trade offensive, and fight our way into the new international market aggressively. Instead of waiting passively for people to approach us, we must systematically build sales networks abroad in accordance with a plan. In addition, we must vigorously create conditions to realize the principle of "putting both ends abroad and achieving high-volume imports and exports." Not only must we purchase foreign raw materials, process them here, and then export them, but we must also open up and operate raw material bases overseas and process them at home for export. Senior personnel skilled in marketing and proficient in foreign languages should be sent to staff organizations abroad and deal directly with people of authority and power from the economic and industrial circles of the host countries and open up the international market. Foreign businessmen have been most critical of delivery dates, product quality, and packaging. An earnest effort must be made to solve these longstanding problems to bring about appreciable improvements within a short period of time. 3) Work out a coordinated plan providing preferential treatment for key exports in light of changes in the international market in order to create a microclimate for key enterprises within a larger environment of retrenchment. At a time when international market conditions are changing, exchange rates are being adjusted, and the prices of raw materials are soaring, we should put out a catalog of priority export products in accordance with the cost of earning foreign exchange, the amount of net foreign exchange earned, production capacity, and the capacity of the international market. A realistic coordinated plan to support the industries should be worked out based on the specific difficulties of the various products in securing energy, raw materials, and funds, in technological transformation, and in upgrading. The idea is to earn more foreign exchange with limited energy, raw materials, and funds. 4) Coordinate foreign trade with foreign shipping to ensure that orders are delivered on time and improve our trade reputation. Right now foreign trade companies often cannot commit themselves to meeting a particular delivery date and are forced to lower their prices as an alternative, passing on profits as well as risks to the foreign businessman, who is thus able to make money from effective management. It is estimated that if the textile industry can meet its delivery dates, it can increase its foreign exchange earnings by five to 10 percent, or by \$50 to \$100 million. At present, the lack of jobs is a widespread problem in foreign transportation companies. Foreign trade enterprises should use the special feature of export commodities—the linkage

between industry, trade, and transportation—and identify some commodities where on-time delivery can be guaranteed. In the case of these commodities, the relevant municipal department should coordinate the rights, responsibilities, and interests of the three sectors—industry, trade, and transportation, improve management, increase profits, and share both risks and profits.

### C. Improve Profitability, Assiduously Accumulate Assets

1. Enhance Shanghai's self-accumulation capability and further increase assets. In Shanghai, industrial enterprises practicing independent accounting reported a high 80-percent return rate on funds in 1979 and 77 percent in 1980. Because of its heavy financial commitments to the state, the percentage of funds retained by Shanghai was very small. Subsequently, the asset-increase rate fell year after year. In 1985, the profit rate of the municipality's industrial enterprises practicing independent accounting dropped to 56 percent, and is now a low 30 percent. There are both subjective and objective reasons for the drop in the asset-increase rate. Among the subjective reasons are mismanagement, extensive waste, and a failure to adjust the product mix and industrial structure in time, all of them taking a toll on profitability. It is imperative that we examine the subjective factors and come up with countermeasures in order to improve profitability and increase assets.

2. Put Shanghai's large and mid-sized enterprises to work to increase asset volume, improve enterprise management, bring about technological progress, and increase profitability as a whole. First, make a serious effort to implement the economic activities analysis system and financial cost analysis system in large and mid-sized enterprises in order to improve their economic and financial status and rigorously curb the rise in comparable costs. Make cost management part and parcel of the entire production and operating process of the enterprise to be accomplished at all levels down to the team, group, and individual. Second, establish competitive enterprise groups to enhance the overall profitability of industry by intensifying organizational management. In times of economic retrenchment, highly efficient and well-positioned enterprises and their inefficient and disadvantaged counterparts are as different as day and night. Thus conditions are in place to carry out the enterprise reorganization plan revolving around highly efficient enterprises and steer capital goods from inefficient to efficient enterprises, forming enterprise groups automatically. We should seize the opportunity to organize a host of inter-industry, inter-sector enterprise groups centered on efficient, well-placed enterprises. Judging from the state of Shanghai industry, the city may consider forming three kinds of enterprise groups. The first kind will consist of enterprise groups that produce brand-name products or other flagship products such as bicycles, TV sets, and refrigerators. The second kind includes enterprise groups that specialize in manufacturing parts and components for a particular industry. The third kind of enterprise group will make parts to

complement imports. Moreover, new technology should be grafted onto traditional industries to transform the latter. Make full use of the interrelation between the various trades. A new piece of technology or a new product may speed up the advance of a trade or an entire industry, lower production costs, improve productivity, and increase the added value of products, thereby greatly enhancing enterprise profitability.

3. Optimize the structure of the increase in assets and raise the profitability of the newly added assets. Set aside a scientifically determined percentage of the newly increased assets for the municipality's accumulation. Of Shanghai's municipal income, the ratio between accumulation and consumption has been about 55:45 in recent years. With its basic interests as the starting point and in accordance with the spirit of belt-tightening, we propose that the increase in Shanghai's assets be spent on reproduction in order to stabilize and develop its economy. In view of the glaring contradictions at present, we propose that we first use the increase in assets to create an export-oriented development fund and industrial structure adjustment reserve fund whose main purpose is to meet emergency or temporary funding needs that may arise as we develop an export-oriented economy and adjust the industrial structure.

### D. Intensify Macroeconomic Regulation and Control and Bring Finance, Credit, and Foreign Exchange Into a Positive Balance

1. Find new sources of revenue energetically even as we trim spending. Tighten tax policy and further improve tax management. It should be the objective of our tax policy to vigorously open up revenue sources in the manner of raising chickens to get eggs. When a central ministry or other area of the nation build a plant in Shanghai, we should be quick to take the initiative to work together with them in earnest, create the right conditions, provide conveniences, and be efficiency-minded in order to finish the plant and make it a success as soon as possible. This would help the Shanghai economy flourish and boost the municipality's revenues. Beef up the corps of tax workers. Work out practical measures to root out tax evasion and cheating. For instance, a system of invoice-checking may be introduced in the individual economy.

2. When it comes to the use of credit funds, we must lead an ox by the halter. Not only must we support priority industries and products, but we must also take a case-by-case approach. In some cases, upstream enterprises should enjoy priority in securing loans so that their materials will flow into their downstream counterparts smoothly. In other cases, the reverse is true so that the funds of downstream enterprises flow back into upstream industries. Banking institutions should closely monitor, observe, and analyze the flow of funds and swiftly direct them into the correct channels.

3. Even as we vigorously open up new sources of foreign exchange, we must adhere to the policy of economy.

Even as we seek to expand commodity exports, we must make a mighty effort to increase the export of technology and labor services. It is proposed that, instead of being fragmented and self-financed as they are now, labor exports should be organized and planned under leadership. Policies should be worked out to mobilize the relatives of Overseas Chinese to encourage Overseas Chinese to invest in China in support of the construction of the motherland. As far as the conservation of foreign exchange is concerned, we must speed up the process of replacing imports with Chinese-made products. A plan should be drawn up to bring about domestication and import substitution on time and in the quality and quantity desired. The importation of domestic electric appliances and ordinary electrical machinery products should be further curtailed and that of daily consumer goods in ordinary trade method should be strictly prohibited.

#### E. Improve the Effectiveness of Financial Subsidies and Stabilize or Reduce the Extent of Such Subsidies

First, establish base figures for losses and introduce loss contracting across the board. Improve the operating efficiency of business departments. It is proposed that in 1990 pilot projects in contracting be carried out in sectors which require a substantial amount of financial subsidies such as grain, vegetables, and foodstuff. After gaining some experience, the experiments should be expanded to gradually reduce the amount of subsidies. Second, clearly unjustifiable subsidies should be abolished. Overhaul the grain management system and grain market. Improve operations and management further. Unjustifiable subsidies should be abolished. For instance, individually owned restaurants and upscale restaurants are supplied with grain at low prices and specialized poultry-raising households are supplied with fodder at low prices, but grain subsidies to them only translate into profits for an individual or enterprise. Third, regulate financial burdens at the various levels. Since level-by-level financial contracting was introduced, district and county government revenues have risen sharply, but municipal revenues have declined. In view of this situation, we should introduce a price subsidy system that is fair to the finance departments at all levels and that imposes a balanced burden on them.

#### Shanghai Industrial Output Rises in August

OWD409225190 Beijing XINHUA in English  
1344 GMT 4 Sep 90

[Text] Shanghai, September 4 (XINHUA)—Shanghai's industrial output value reached 9.796 billion yuan in August, 4.4 percent higher than in the previous month and 2.7 percent more than in the same month a year ago.

In the first eight months of this year the industrial output value of China's biggest industrial city amounted to 75.086 billion yuan, 0.6 percent more than in the same period of 1989.

Shanghai's export of manufactured goods came to 1.379 billion yuan (about 297 million U.S. dollars)-worth in August, slightly higher than in the same month last year.

Local economists said that Shanghai's industrial enterprises should make greater efforts during the rest of this year to realize a targeted four percent increase in industrial output value over 1989.

#### Policies Proposed for Sichuan Firms in Shenzhen

90CE0429A Chengdu SICHUAN RIBAO in Chinese  
26 Jul 90 p 2

[Article by the Shenzhen Office of the Sichuan Provincial People's Government "Develop the Role of Window of Shenzhen Special Economic Zone and Speed up Sichuan's Tempo in Opening Up"]

[Text] Sichuan began in 1981 to open windows in Shenzhen Special Economic Zone (SEZ). As of the end of May 1990, 227 units were opened in Shenzhen. Sichuan invested 410 million yuan in these units. The net value of their assets was 640 million yuan. They hired nearly 20,000 employees and exported about 120,000 laborers. In 1989, their output value was 958 million yuan, business volume was 173 million yuan, and profit was 58.19 million yuan. They have now formed over 20 industries and categories. Among them, building, electronics, machine-building, plastics, and catering industries have definite advantages, and chemical, silk, velvet, and clothing industries have greater potential.

#### I

When opening up windows in Shenzhen, Sichuan paid attention to coordinating with the development pace and industrial structure of the SEZ. It started out with small ones and progressed according to its ability. It combined industry with trade and considered industry as the basis. Such enterprises are characterized by high technology, a high starting level, relative centralization, and nearby supporting facilities. They did a good job in playing the roles of four windows and four bases.

1. The role of the window of information. Incomplete statistics show that Sichuan's units in Shenzhen have collected over the time about 110,000 pieces of information on processing and over 30,000 have been sent back to Sichuan Province directly. About 30 percent of Sichuan's enterprises and establishments have established a system to send domestic and international economic and technological information to their headquarters on a regular basis. Such information has played an important role in helping Sichuan's various economic departments guide the implementation of the open policy and the headquarters of enterprises open up foreign markets.

2. The role of the window of foreign relations. About 40 percent of enterprises have established a fairly stable economic and technological relation with foreign investors, and about 35 percent of enterprises have found



fairly stable foreign markets for their products. At present, Sichuan's enterprises in Shenzhen have established long-term business relations with over 10 countries and areas including the United States, Japan, and Hong Kong.

3. The role of the window of imports and capital use. Sichuan's enterprises in Shenzhen used a total of \$35 million of foreign capital and attracted more than 40 million yuan of funds for their headquarters in Sichuan.

4. The role of the window of technological and equipment imports. Sichuan's enterprises in Shenzhen imported over 200 useful advanced technologies and about 100 million yuan worth of technical equipment for their headquarters in Sichuan.

The four bases are for export-oriented processing, innovation, foreign trade, and the learning of modern management and the training of personnel. The Sichuan Silk Company and the Nanchong Velvet Plant used Sichuan's abundant raw materials to process silk and velvet products for export and have formed an initial form of specialized export-oriented processing base. Through optimized organization, scientific management, and flexible operations, the Huaxi Company developed from a small construction enterprise to a large comprehensive corporation between 1982 and 1989. Sichuan's enterprises and establishments in Shenzhen have trained over 3,600 managerial personnel for Sichuan Province and achieved good results in importing and applying advanced foreign management experience.

## II

Sichuan's enterprises and establishments in Shenzhen also have some problems and contradictions. They lack the vertical guidance of industrial supervising departments in Sichuan and the horizontal coordination of enterprises in Shenzhen and have not formed the advantage of the whole. They had a late and hasty start. Their investment was overcentralized. Many enterprises have many problems in production and management due to insufficient early input. Enterprises are not competitive due to many fees and high costs of production and management. The enterprise system is incomplete and management is poor. The relation of property rights is unclear from the start because Sichuan's enterprises in Shenzhen are established mostly with the funds of their parent companies. After the second and third generations of enterprises appeared, the relation of property rights became more confused, resulting in the loss of property and profits in some cases. The development and expansion of enterprises in Shenzhen contradicts the purpose of promoting the development of their parent companies in Sichuan. In 1989 profits sent back to the parent companies in Sichuan by enterprises in Shenzhen decreased, and some enterprises wanted to break away from their parent companies after they became successful.

Contradictions also exist between the efforts to support the SEZ's construction and the efforts to promote Sichuan's economic development.

Sichuan's investment in Shenzhen is very conducive to the SEZ's development. However, under some of the current policies, little funds, technology, and profits are sent back to Sichuan. Besides, domestic coordination is basically a one-way layout from Sichuan to Shenzhen, which is not favorable to promoting Sichuan's economic development.

## III

The Shenzhen SEZ is the earliest and largest comprehensive special economic zone in China. As the open policy develops further, the political and economic significance of the Shenzhen SEZ will be raised further, which will bring fresh opportunities for the consolidation, development, and improvement of Sichuan's enterprises in Shenzhen. The establishment of window enterprises and the construction of window bases in Shenzhen should be included in Sichuan's provincial economic development strategy and considered as a part of an overall plan for reform and opening up to be carried out step by step. This will put an end to the situation in which most such units are established by individual enterprises on a voluntary basis. When opening up such windows in the future, Sichuan should focus on technology-intensive industries and appropriately develop labor-intensive industries. The direction and order of industries should be electronics, building, textiles, silk, catering, chemical, machine-building, light industrial, and building materials industries. At the same time, Sichuan should smooth out the relations between parent enterprises and window enterprises and establishments. On the condition that the relation of property right has been clarified, Sichuan may implement various forms of management responsibility system in their enterprises and establishments in Shenzhen. In the near future Sichuan should focus on the "snowballing" of existing enterprises and establishments in Shenzhen, speed up technological updating, practice a diversified economy, and integrate industry with trade and technology. When expanding existing enterprises and establishing new window enterprises, Sichuan must ensure that they have high technology, a higher starting point, and intensive development and that they will become really export-oriented windows.

Sichuan has a large population and scarce financial resources. When establishing window enterprises in Shenzhen, Sichuan should implement the principle of starting out with small ones, progressing according to ability, connecting small areas into a large area, and expanding one step at a time. Sichuan should also establish a number of window bases which have obvious technological advantages and a relatively centralized layout, and which are fairly competitive. First of all, it is necessary to strengthen industrial integration and coordination to expand the scale of production and management of Sichuan's enterprises in Shenzhen. Second, it is



necessary to strengthen horizontal ties and coordination between enterprises to form the advantage of the whole. On the basis of consolidating and developing existing enterprises in Shenzhen, Sichuan should focus on developing Sichuan-foreign direct joint ventures or cooperative enterprises and encourage and support some enterprises in Shenzhen, which have a better basis, to go to Hong Kong and other countries of Southeast Asia to open transnational companies using Sichuan and foreign funds. From now on Sichuan should switch its attention to attracting investors from Shenzhen, coastal areas, and foreign countries to build factories in Sichuan Province to form a coordinated process of production and management which considers Sichuan as the production basis of raw materials and semi-finished products, Shenzhen as the basis of multiple processing or packaging, and foreign countries as the market. This will help Sichuan open up further to the outside and revitalize Sichuan's economy.

To further strengthen cooperation and coordination between Sichuan and Shenzhen, we suggest that major leaders of Sichuan and Shenzhen carry out dialogues on a regular basis to strengthen ties and coordination between counterpart departments and enterprises in the province and the city.

The departments concerned should strengthen the industrial control and vertical guidance of Sichuan's enterprises in Shenzhen, formulate plans for the opening up of individual industries, define the investment direction, goals, priorities, steps, and measures of every industry in Shenzhen SEZ, and strengthen the control of property rights of state-owned enterprises of every industry in Shenzhen.

On the basis of carefully reviewing experiences and lessons, it is very necessary for Sichuan Province to discuss and formulate rules and regulations for the control of foreign window units as well as detailed rules for the implementation of such rules and regulations. Sichuan may establish an economic and technological research organ in Shenzhen to strengthen information and economic research on coastal areas, Taiwan, Hong Kong, Macao, and countries and areas of Southeast Asia. Such an organ should make suggestions on a regular basis to the provincial CPC Committee, government, and the departments concerned and provide consultative service for Sichuan's enterprises in Shenzhen.

## FINANCE, BANKING

### Survey of Tax Collection

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[Article by Li Zongling (2621 1350 0407), Liang Li (2733 0500), and Lan Xiaomai (5695 2556 2734), edited by Gao Xiaoxia (7559 2556 7209): "A Routine Survey of

the Situation of Tax Collection From Self-Employed Industrial and Commercial Businessmen in Rural Areas in Beijing Municipality"]

[Text] During the 10 years of reform, individual economy and private economy have achieved an unprecedented development in our country. The existence and development within a definite scope of individual economy and private economy have played an active role in developing our social economy, facilitating the people's livelihood, and providing employment to the extensive masses of workers. However, since their management (administrative, economic and legal) has not caught up with the trend and because of serious tax evasion, a series of new problems has cropped up and has had negative effects on social security. Hence, the urgent task now is to step up and strengthen the control of individually run and privately run economies, particularly with regard to the collection of taxes.

Not long ago, we conducted a routine survey of the situation of tax collection from rural individually run industrial and commercial households in Haiding district of Beijing Municipality. The situation is as follows:

#### 1. Condition of Tax Collection Work From Individually Run Industrial and Commercial Households in Rural Areas

At the end of September 1989, in Haiding district the number of individual industrial and commercial households (briefly termed below as individual households) and private enterprises which had registered for tax payment was 7,236 units of which 2,018 units were in the rural areas, making up 27.9 percent of the whole. Tax collection in recent years was as follows: 1987, 3.151 million yuan; 1988, 6.823 million yuan; and 1989, expected to be 7.43 million yuan, averaging an annual progressive increase rate of 45 percent. In the whole district there were 13 tax collection offices and 420 taxation cadres of whom 44 cadres were responsible for collecting taxes from individual households, 10.5 percent of the total.

A. Collection forms generally divided into four kinds:

1. Accounts inspection and confirmation form. This is a tax collection form principally applicable to those individual households which have installed a double entry accounting system and have a relatively large operational income and a definite ability in accounting. This is, the tax-paying unit, within a prescribed time period, submits a tax payment application form together with a financial and accounting statement to the tax collection organ. Following inspection and confirmation of the accounts, the tax collection organ will issue a tax requisition form, according to which the tax-paying unit pays the taxes. In Haiding district 5 percent of the units use out this method of tax payment.

2. Reporting, checking, and confirming form. This is a tax collection form principally applicable to individual units whose operational income, though relatively high,

is not stable. They are mostly distributed among the hotel, repair, and restaurant trades. The taxpayer follows the tax regulations in applying for and reporting tax payment. The tax organ, following a due process of checking and examining, issues the tax requisition form according to the tax that will be paid.

3. Form of deduction and payment of taxes on others' account. This is a form of tax collection whereby the tax organ approves and entrusts a unit to deduct and collect, on behalf of the tax organ and in accordance with the tax collection statutes of the state, taxes from the tax-paying units. For example, soft drink wholesale units may be entrusted with collecting business tax and income tax from individual households handling the retail sales of soft drinks; highway transport management departments (that is, rural transport control stations) may be entrusted with collecting business taxes; or commercial wholesalers and industrial enterprises may be entrusted with collecting business taxes from the individual retail sales sectors.

4. Fixed date and fixed amount tax collection form. The tax organ estimates or assesses a fixed period (a year or half a year) of the monthly business volume of the tax-paying unit, determines the tax amount according to the prescribed tax rate, and fixes a date for payment. Because this form is suited to individual industrial and commercial units which operate on a small scale but have a steady income and also because it is easy to handle, it is currently the principal tax collection form from individual units. In Haiding district, 80 percent of the individual household units use this form of tax payment.

B. The tax collection and control form has the following three special features:

1. Demarcation according to economic nature, that is, enforcing separate management and control of individual units and economic units under the collective ownership system. Under the district bureaus and the various grassroots level tax collection offices, separate tax collection and control organs are set up for individual units and privately run enterprises.

2. Carrying out tax collection and control according to different regions and localities, that is, separation into certain regions for collection and control. In rural areas, a tax organ takes charge of tax collection for several villages.

3. For the large number of temporary operators in commerce, restaurant, trade, and repair trades, a system of roving or rotating tax collection and control is enforced.

C. There are four main kinds of taxes collected from individual households and private enterprises:

1. Taxing the circulation volume, including products, value-increment and business taxes;

2. Taxing the income volume, including income tax of individual industrial and commercial units, income tax of private enterprises, and readjustment tax of individual income.

3. Taxing assets, including real estate tax;

4. Conduct tax, including tax on use of vehicles and ships, tax on use of land in cities and towns, municipal maintenance and construction tax, and stamp tax.

In addition, the State's major construction funds for energy and communications, educational surcharges, and extra-budgetary regulation funds are collected.

## II. Problems, Difficulties, and Their Causes in Tax Collection Work

A. Understanding not unanimous; ideas not unified.

At present, there is a great disparity between the income of owners of private enterprises and portion of the individual units and that of the extensive masses of staff members, workers, cadres, and intellectual elements who depend on their salary and wage earnings. Against this phenomenon of unjust social distribution, the party and government have repeatedly declared: "We must pay high regard to it and urgently seek a solution. Legitimate income should be duly protected; regarding overly high income, necessary regulation should be made by means of taxation while illegitimate income should be strictly banned." In regard to this, by far the great majority of taxation cadres and executors of law have determinedly protected and earnestly and thoroughly carried it out, but there is still a portion of comrades who have maintained a vague and even incorrect understanding such as thinking that in production and the circulation area as a whole the portion occupied by the individual households is rather small and is also rather small in the total revenue receipts of the state and that even though a problem arises, it will not be of great importance. Some believe that the principal side of unjust distribution in our country lies in egalitarianism—"everybody eating from the same big pot," whereas the problem of the overly large disparity in income is not as serious as egalitarianism. Then there are certain comrades who do not have a deep understanding of the importance of making use of taxation to regulate overly large income and lack confidence in the feasibility of solving this problem. This has become an ideological impediment to taxation work developing and progressing smoothly.

B. Serious insufficiency in strength of tax collection and control and backwardness in conditions of tax collection and control.

In the Haiding district tax bureau, there are only 55 cadres in charge of taxing individual households in the whole district. Of them 26 cadres are responsible for tax collection work from those individual households with proper industrial and commercial business licences, with each person averaging 200 to 300 households, 18 cadres

are in charge of tax collection from temporary commercial units and those merchants and peddlars who are unlicensed. In addition, there are over 80 temporary assistant tax collectors.

Compared with urban areas, management and control of rural individual units have many disadvantages. First, there are many places, there is a large area, and the location of the units is widely dispersed. Second, there is a strong seasonal character and changes and movements are very frequent. According to our survey, in the rural areas individual units dealing in vegetables and fruits occupy a rather large percentage, roughly 30 to 70 percent of the whole. Moreover, in the service, repair, and restaurant trades (particularly the individual units handling vegetables and fruits) the seasonal character of business is very strong and movements and changes are more frequent than in the urban areas. Particularly with the small number of tax collectors, it is extremely difficult to follow the changes in brisk and sluggish seasons.

In addition, tax offices or organs at the grassroots level have little autonomy in the use of administrative expenses and as a result of the stringency in administrative expenses, cannot take the initiative to develop their work.

C. Slow progress in the installation work of a bookkeeping and accounting system.

At present, an important cause of difficulties in tax collection, management and control, and examination and inspection of the individual units is their imperfect bookkeeping and financial and accounting systems. Although as early as 1986 the Ministry of Finance and the Tax Bureau of Beijing Municipality successively stipulated that individual units in the various industries and trades must follow the regulations of the taxation offices for setting up and maintaining accounts and vouchers and be ready to accept the guidance and inspection of the tax organs. Unfortunately up to now in Haiding district less than 100 percent of the individual units have set up bookkeeping and accounting records and those in the rural areas have been worse. Lack of accounts means lack of figures and thereby the basis for tax computation (mainly with reference to operational income) has to depend on mere estimation, that is, guessing from sampling or from taking as a base figure the payment of industrial and commercial control fees during the tax-paying period and fixing the figures according to the commodity price readjustment scale for a stated period. This must lead to serious tax evasion.

There are two main reasons for the slow progress in setting up bookkeeping and accounting systems. First, because the tax collection personnel are weak in accounting and auditing ability, they are incapable of providing good guidance to the individual units in bookkeeping and accounting. And even though the units may have set up a set of books, the full results of tax collection cannot be effected because of too few tax collection personnel. Second, a large portion of the

individual units have a low educational level, and some may even be illiterate. They totally lack the ability to handle books and accounting records. It is obviously difficult to ask them to set up within a short period of time a bookkeeping and accounting system.

D. Lack of effective methods of punishment and compulsory measures.

During the survey, the general feeling of the tax collection personnel was that the individual units in Beijing were "afraid" of the industrial and commercial departments and not of the tax collection department. If industrial and commercial regulations are found to have been violated, the industrial and commercial department can hold commodities and assets, freeze the individual units' bank accounts and deposits, order them to suspend operations and to rectify their omissions, even cancel their business license. Whereas the taxation department, until the great tax inspection in 1989, had no punitive measures effective enough to frighten violators of taxation regulations. Even after the announcement in 1989 of mandate no. 3 by the municipal government giving tax organs the power to hold and auction the goods of individual operators to offset tax claims, a series of problems remained, such as how to store the held goods (particularly fresh and perishable goods), the slow procedure in sanctioning the detainment of the goods (level-by-level sanctioning such detainment in the governmental ladder consumes time, and by the time a final sanction is obtained from the bureau chief the entire situation may have altered).

There are no effective measures to deal with opposition to tax collection met with by tax organs at the grassroots level. Numerous cases have been reported of tax collectors being cursed verbally and even roughly handled. There were instances of individual operators gathering together a crowd, wielding weapons or letting loose their dogs to deal with the tax collectors. Under such circumstances, the tax collection department, aside from proceeding according to law, frequently sought cooperation and help from the industrial, commercial, and public security departments but for various reasons, cooperation was frequently inappropriate and half-hearted.

E. Relevant regulations being imperfect and not concrete enough; insufficiency in cooperation and coordination from departments having overall charge.

For the sake of simplifying the procedure of paying various kinds of taxes and dues in the early part of the month, industrial, commercial, and taxation personnel at the grassroots level have initiated the measure of operating a joint office in the collection period in the early part of the month and enforced the practice of allowing payment of taxes and dues jointly. This obviously has cut short the procedure of the payer having to go to the industrial and commercial offices to pay the industrial and commercial administration dues first and then proceed next to the bank to pay the taxes. This solved the problem of the individual operator being



unwilling to travel long distances and resorting to evading payment of the taxes. At the same time it made relations between the industrial, commercial, and taxation personnel closer. However, because now only these several departments are joined together in their work and cooperate with each other, they still need an essential organized leadership to make detailed and concrete arrangements for the work, thus the practice of operating joint offices has frequently been interrupted.

Lack of coordination between the departments has also directly affected the collection of taxes and dues. For example, in a certain country fair market in Beijing, the industrial/commercial people and taxation people have each gone different ways; sometimes the industrial and commercial administrative dues have been set too high and this caused adverse effects on the subsequent tax collection work. Failure on the part of the departments concerned to negotiate with each other to settle their differences has seriously impeded progress.

Imperfection in taxation rules has caused the problem of individual operators in certain areas complaining about an "unjust tax burden." Individual units universally conceive the ideology of "fearing not paying taxes but fearing only injustice in tax payment." Injustice in tax burden is reflected on many sides. For example, the method of fixing a payment date and fixing the amount of tax differs with different people, and there is no rule about handling the production cost (no concrete rules for "entertainment" expenses and other production costs of income). The rules, if any, are not strictly carried out, and they are not exact in their application, and so on. The worst in reaction is that "the more strictly one observes the rules, the more he suffers," and that "having a temporary licence is better than having a regular licence and not having any licence is better than having a temporary licence." The cause of this is that while the highest rate of business tax for temporary commercial units in country fair trade is 5 percent whereas the tax rate on the business volume of properly licensed individual units is 10 percent.

In addition, according to the policy, "disabled" individual operators are exempted from taxation, but at present there are no rules governing the demarcation of work done by disabled persons and their family members and assistants and there is thus the problem of tax evasion through exceeding the tax exemption provision.

F. A portion of state-run and collective units has not been able to truthfully carry out the obligation in wholesale trade to deduct tax amounts on behalf of tax collection units. They have even gone to the extent of using the pretext of being state-run and collective units engaging in tertiary industry to evade taxes.

At present, a portion of state-run and collective enterprises do not follow the relevant rules to faithfully perform the assigned task of deducting, in wholesale trade, payable taxes on behalf of tax organs. Some do not even issue an invoice or tax requisition form (that is not

deducting any payable taxes) and offer low prices so as to attract individual retail sales merchants and thus strive to capture the market. This causes individual operators to evade taxes and also adversely affects the work of tax collecting organs in checking and administering tax payment from the individual operators.

In addition, tertiary industry handled by a portion of state-run and collective enterprises is for a long time under the name of collective units whereas in truth individual units are doing the work. This causes a large amount of tax evasion. In the rural areas this kind of problem is prominently reflected in plants run by schools and supply and marketing cooperatives selling goods on another unit's account.

G. Quality of personnel in taxation work needs to be enhanced.

The quality of a portion of personnel in taxation work, particularly those at the grassroots level, is not high enough and this also affects tax work. Su Jiatuo tax station is an advanced unit among the 13 tax stations in Haiding district, but judging from the quality of its personnel it is hardly suited to the tasks it bears. The station has 19 people on its staff of whom 80 percent are below the age of 30 and have engaged in the work for only two to three years. Moreover, a great portion of them are senior high school graduates and about 80 percent of them have gone through only a short period of training in taxation work. Only two of them are college graduates. Some of the special personnel in charge, due to their low educational level and poor specialized technology, not only cannot skillfully help the individual units set up a bookkeeping and accounting system or explain in detail the policy and regulations but also find it difficult to fill in an ordinary inspection card.

In the course of the survey it was also found that certain individual tax administrators were tied by customary practices and placed the building up of personal relationship with the individual operators as the basis for furthering their taxation work. As a result, within a short time there were the phenomena of rampant social activities such as drinking, feasting between the two sides, and even cases of bribery, favoritism, bending, and even violating the law.

H. Rural government departments have failed to fully display their role in helping, protecting, and cooperating with taxation work.

During the survey, we found a sharp contradiction between the small number of personnel in rural taxation organs with the poor conditions for tax collection and administration and the heavy collection tasks as well as the large scope of the work. This was closely related to the current state of not having fully displayed the role of rural-grade government organs. Although certain rural government organs, aside from protecting and cooperating with the normal tax collection work, do take stern measures against various kinds of ill practices in tax collection, administration and inspection work, yet



because correspondingly adequate taxation organizations have not been formed, they do not possess the necessary power and can only sigh at the illegitimate taxation practices without doing anything.

### III. Suggestions and Countermeasures

A. Further strengthen the propaganda and educational work on taxation policy and taxation laws, and form a benevolent atmosphere in society for assisting and protecting taxation work.

The problems in tax collection among individual operators, private enterprises, and even various industries and trade in society reflect the relative weakness in the understanding of tax collection and the concept of tax laws on the part of the whole body of citizens. Hence, considering the long run, we must strengthen propagation and education, bring up the concept of tax laws with citizens, fully display the role of the various kinds of propaganda tools, employ flexible and various kinds of supervisory measures and tactics, and gradually form a social common understanding and atmosphere treating "tax-paying according to law as being glorious and evasion of tax as being shameful," so that paying taxes and assisting and protecting tax collection will become an obligation and a form of social morality consciously reflected by each and every citizen. Thereby forming, within the social scope, a powerful mechanism to threaten and restrict violations of tax collection laws.

B. The guiding thought of "light tax but heavy penalty" must be instilled in tax collection work.

Due to the relative deficiency or immaturity in the conditions, form, measures, and quality of personnel for current tax collection work, in developing individual and private economy, strictly enforcing taxation laws, increasing tax collection and generally improving the taxation environment, it is necessary to implement the guiding thought of "light tax but heavy penalty."

Light tax is mentioned against heavy penalty. In this connection, on the one hand it is meant that along with gradually setting up a rational tax rate and tax volume and strengthening collection and administration work, major efforts should be devoted to the problem of finding and stopping tax evasion, on the other hand, it refers to imposing heavy fines which are far larger than the amounts of lost tax and in this regard fines heavier by one thousand percent or several thousand percent should be imposed on illegal operators and tax evaders who have consistently indulged in such practices or have even resorted to brutal force to resist tax payment. If necessary, their business licences should be revoked.

C. Devote utmost efforts to the basic work of setting up bookkeeping and accounting systems and improvement and perfection of tax collection work.

Possessing complete and correct basic figures, and promptly grasping them, of the business operations of the individual operators are basic in the formulation of a

rational tax rate and tax amount. Aside from increasing the necessary communication, information, and computation tools, strengthening the filing system, and improving the existing conditions for collection and administration, a branch of work which must be fiercely grasped is the setting up of a bookkeeping and accounting system for individual operators.

Under the current conditions, doing a good job requires the following tasks:

1. Unifying the taxation personnel's understanding of the necessity of setting up a bookkeeping and accounting system, strengthening their confidence and unifying the ideology among the taxation personnel are important prerequisites to performing well the job of installing a bookkeeping and accounting system. Through education, we should make all taxation personnel at the grassroots level understand that instituting a bookkeeping and accounting system is the foundation for realizing scientific management on the tax collection front and that such work must be done well. It meets not only the needs of improvement and rectification but also the needs of pushing the healthy development of the national economy.

2. Carrying out training of the management personnel in a planned manner and making the setting up of a bookkeeping and accounting system one of the criteria for assessing the tax administration work at the grassroots level. For the present, we should step up the measures of training financial and accounting personnel, rapidly rectify the passive state of the work of setting up a bookkeeping and accounting system, start special rotating training classes for the existing taxation administrative personnel, make basic business knowledge more generalized, train key elements, also employ retired accountants to help in the work, and help taxation personnel become suited to the work of setting up a bookkeeping and accounting system. At the same time, we should supervise the work of the taxation personnel at the grassroots level in setting up the bookkeeping and accounting system, take this as one of the standards for assessing their performances, and reward those who have performed well and punish those who are poor in their work.

3. Stepping up the education of individual operators and making each and every individual operator set up a bookkeeping system. Against those (particularly in the rural areas) who are of a low educational level and who, ideologically, have a vague knowledge of bookkeeping and accounting and even dislike it, it is all the more necessary to strengthen legal education and education on the necessity and superior character of having a set of bookkeeping and accounting systems. At the same time, with the support of the relevant departments, carry out guidance and helping work household by household, set up bookkeeping and accounting records in batches according to the actual conditions, grasp the larger units with the capacity of setting up books to set up the first category of account books, and turn next to those with

lesser conditions to set up a second category of books (accounts on cash flow) and/or a third category of books (simple accounts on purchases and sales). In all cases, refrain from applying the same procedure to all but seek stability from rapidity.

4. Concurrently with setting up books, a system has to be installed. This applies principally to the installation of an accounting system and financial system, particularly to paying attention to solving the concrete problems met with in setting up the books, such as the setting up of books and accounts for related households and so forth. Tax administrators should, on the basis of setting up books and a system, integrate the work of inspection of tax collection and that of inspection of the financial and accounting systems, striving for the objective of making a sampling survey of 30 percent of all the units concerned each quarter of the year. Tax offices at the grassroots level should set up a system of periodically examining and inspecting the accounts of the individual units, eulogizing those who are advanced and rectifying, and criticizing (even punishing) those who are behind.

5. In the daily collection and administrative work, regarding those units who have already set up their bookkeeping systems, tax collection work should be basically done through inspection of the accounts and make the tax requisitions according to the fixed rates. This should be acknowledged as a responsibility of the tax administrators and should be the basis for assessing their performances.

D. Systematically enforcing the separation of "collection, control and administration, and inspection."

In enhancing the quality of tax collection, administration, and inspection work, it is necessary, on the basis of setting up a perfect bookkeeping and accounting system, to change the current method of enforcing tax collection among the individual operators by having the administrator take charge and literally contracting for all the work in collection, administration, and inspection. We should steadfastly proceed in the direction of the gradual separate the work in collection, administration, and inspection. The administrator should be responsible for only collecting taxes at fixed periods, carrying out propagation work on taxation policy and regulations, assisting and guiding the setting up of financial and accounting systems, solving the general run of cases of tax evasion and omission of tax collection. Regarding tax evasion and resistance to paying taxes of a serious character requiring the setting up of special court cases to handle, the same should be turned over to the inspection personnel to handle and there must be specialization of the work of collection, administration, and inspection. This will help in enhancing the quality of the taxation personnel, is beneficial to avoiding the growth of "favoritism" and the phenomenon of using taxation as a means to seek personal gains and it also helps in the formation of an internal restrictive mechanism for reciprocal supervision.

E. Reliance on rural political power to set up a network and system for coordinating with the protecting taxation work and strengthening collection, administration, and inspection.

At present, rural political power should be taken as the basis for the establishment of a network and system for coordinating with, and protecting, taxation work. For example, under the village government we may consider setting up a "tax collection and administration station," under the double leadership of the local tax organ and the village government. The local tax organ will be responsible for the business affairs, while constituency of the personnel should be principally from cadres of the rural areas while the principal work will be solving various vices in tax collection. The station itself will be responsible for pressing payment of taxes, inspection, and registration of taxation affairs concerning individual operators in the locality and the supervision and investigation of their channels for purchases and sales, operation level, and conditions of the hiring of workers.

F. Strengthening coordination between the departments, perfecting the regulations and rules, and adding to the compulsory nature of tax collection.

It is necessary to further strengthen coordination between the various executive departments, particularly between public security, industrial and commercial taxation departments, and the law courts and supervisory departments.

Measures of a compulsory nature in tax collection and administration must be strengthened. Cases of frequent evasion of taxes, resisting tax payment by brutal force, and even attacking and insulting tax collection personnel must be heavily punished so as to strengthen the prestige, solemnity, and inviolability of tax laws. At the same time there must be no interference with the taxation personnel doing their rounds of duty.

The present impediments to the enforcement of measures of a compulsory nature which call for reciprocal cooperation should be removed as soon as possible.

Regarding cases of violation, tax organs should be given the power to detain, seal up, and auction the commodities and also the power to freeze the bank deposits, take over the estates and properties of those violating the statutes, report the same to the industrial and commercial departments concerned, and take over the business licence of the culprits. At the same time, we must perfect and publicly reveal the taxation system and the reporting system so as to augment society's strength in supervising according to law.

G. Carrying out liquidation of units which are "collectively run in name but individually run in fact," and firmly changing over to treating them as individual households and private enterprises. Their books will be inspected and taxes will be duly collected.

As for those cases which have the signboard of state-run or collective enterprises but in fact are contractors and leasing units under individual operation, we should clarify, liquidate and ascertain the facts about them one by one according to the five standards of collective enterprises. Those not conforming with the standards should be treated as individually run units and private enterprises, and be subjected to renewed registration. In addition, their accounts should be examined and collection of taxes due should be made.

H. Further strengthening management of wholesale units taking charge of deducting retail sales tax on behalf of tax organs.

Make a comprehensive inspection of industrial and commercial enterprises engaged in the wholesale business. In regard to cases of those without certificates of tax deductions who have not carried out the obligations of deducting the tax and delivering the same to the tax offices, they should be required to reissue such certificates and deliver the receipts to the tax offices concerned. Units found to have violated the regulations, untruthfully reported the tax-deduction certificates, and failed to send in reports according to the fixed time on deductions and deliveries made will be subjected to criticism and penalties (fines). Those failing to deliver on time the taxes deducted will be handled as having evaded tax payments. At the same time, taxation departments should strengthen their work of fixing and inspecting the amount of taxes deducted on their behalf and delivered to the treasury.

#### Journal on Reform of Pension System

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[Article by Qie Jianwei (6742 1696 0251): "On Further Reforming the Pension System for Staff and Workers"]

[Text]

#### I

Before the Cultural Revolution, the raising of retirement funds for employees of enterprises was centralized, and their usage was regulated by trade unions at various levels. During the Cultural Revolution, they were paid out of the non-operating funds of individual enterprises. The major drawback of the latter method is that the burden of enterprises is either too heavy or too light. New enterprises have a lighter burden because they have fewer retired staff and workers, while old enterprises are weighed down by their large number of retired staff and workers. This not only hinders fair competition between enterprises and impedes their growth, but affects the normal livelihood of the retired staff and workers of some enterprises. Following the deepening of the reform of the economic system and the drastic increase in the number of retired staff and workers, in particular, this method will have an adverse effect on the implementation of the contract system, the reform of the labor system, the formation of the labor market, the rational flow of labor force, as well as social stability and unity.

It has been six years since experiments in overall financing in society for employees' post-retirement expenses were first introduced in 1984. Today, overall financing for post-retirement expenses with the province, city, or county as unit has been put into practice in many places. The practice of this method has regulated the profit retention level of enterprises by compulsory means. Within given limits, this method requires enterprises to shoulder a share of the post-retirement expenses according to the average level in society. It thus balances the burden between enterprises, invigorates their vitality, and creates conditions for equal competition between enterprises. It also promotes the reform of the labor system and protects the livelihood of retired staff and workers.

However, it must be noted that the present method of overall financing is basically identical in nature to the method practiced before the Cultural Revolution. It has not overcome the major drawbacks of the retirement pension system or resolved the basic problems confronting the management of employees' post-retirement expenses. This requires our cool-headed analysis and sober understanding.

#### II

The major drawback of our current pension system for staff and workers is that it has a narrow fund-raising channel, as the entire pension fund is borne by enterprises. Aside from the statutory pension system, there are no mechanisms that encourage enterprises to supplement their employee old-age insurance nor special measures that encourage individual staff and workers to tackle their own problem of post-retirement needs. This state of affairs is not only not in conformity with China's large population and poor economic foundation, but is also ill-suited to the characteristics of economic development at the initial stage of socialism. It causes staff and workers to become more and more dependent and adds to the burden of enterprises.

The basic problem confronting our employee pension system is the challenge posed by an aging population. Early next century, China will join the ranks of aging countries. As the proportion of old people in the total population soars, there will be notable changes in the ratio between retired and working employees. Analyzed from the process of the operation of funds, our present method of raising pension funds is a kind of cash receipt and payment, where revenue is determined by expenditure, with basically no accumulation. This will render us unable to face the grave challenge of a massive increase in pension payment when the increase in the number of retired staff and workers has reached its peak.

We must face the challenge posed by the problem of the aging of the population by reforming the present retirement system. In my opinion, the following problems have yet to be resolved in overall social financing:

1. The channels for raising pension funds have yet to be widened. Prior to the introduction of overall financing,



the pension fund was listed as a non-operating expense and was fully reimbursed by the state. After switching to overall financing, enterprises are required to turn over a given percentage of their total wage in accordance with the unified regulations for their locality. Because this is basically an item of non-operating expense, it eats up part of the profits of the enterprises. It is evident that there are no changes in the channels for raising funds before and after the switch to overall financing, as it is still the state and the enterprises that foot the bill. Unless the obligations of the individual on the question of retirement pension are spelled out, the complete dependence of employees on the state in their post-retirement life cannot be resolved. Although the method for raising pension funds outlined in the contract system introduced in 1986 has specified the percentage to be contributed by individual employees, in actual implementation, this is paid by the enterprises concerned along with the portion they are required to pay. This is a far cry from what is truly meant by enlarging the channels of overall financing and requiring the individuals to contribute toward the pension fund.

2. The burdens of the state have yet to be alleviated. Overall social financing for post-retirement expenses is essentially a readjustment of income distribution. As such, it is bound to entail changes in the distribution relationship between enterprises and between enterprises and the state. The implementation of overall financing in society has affected the profits of some enterprises. In particular, enterprises with a young work force and few retired staff and workers will find their profit retention reduced as a result. In overall financing in society, some localities and trades have managed not to affect state revenue by adhering to the methods of mutual regulation between enterprises, self-financing by enterprises themselves, or gradual transfer year by year. Nonetheless, it is true that because some localities have resorted to such tricks as granting tax remission and reduction, lowering the tax rate, and including pension expenses in the cost, part of state revenue has been misused or misappropriated. This has increased the financial burdens of the state. Meanwhile, due to the lack of clear-cut stipulations, it is still possible to resort to such misuse of state revenue when a higher percentage is announced for overall financing.

3. The method of cash receipt and payment in fund raising has yet to be changed. The former pattern of cash receipt and payment, where expenditure is determined by revenue, has not been changed after the switch to overall financing in society. As the present method of overall financing specifies that the percentage to be drawn should be based on the principle of basing revenue on expenditure while leaving a small surplus, the amounts raised are more than are actually needed. Under current conditions, however, the proportion and amount of pension for retired staff and workers, and various kinds of subsidies for that matter, are in an unstable state due to the effects of inflation. Should the need to increase expenditures occur, it is highly likely

that the small surplus will be used up, given that the proportion of pension fund remains relatively stable. In individual places, deficits in the overall funds raised have occurred subsequent to an increase in subsidies to retirees.

4. The unity of rights and duties has yet to be realized. The present method of overall financing in society also has its flaws in terms of management procedures. The crux of the problem is that the lack of mutual constraints between the pension payers, managers, and beneficiaries has resulted in the separation of rights and duties. Enterprises, as pension payers, are not directly responsible for the shortage of funds raised but are in a position to raise the scale of benefits for retirees. The overall financing management committee, as the pension manager, is directly responsible for decisions on the usage of funds and can even invest indiscriminately, but is not held responsible for the effects of investment, the appreciation of accumulated funds, or the possible shortage of funds. Retired staff and workers, as pension beneficiaries, cannot increase the amount of their future pension through hard work because their future pension is determined by changes in management approaches and has nothing to do with their contribution to society.

5. Its relations with other reforms have yet to be straightened out. Overall social financing has close ties with the implementation of the contract responsibility system, the reform of the labor system, and so on. For instance, following the optimum organization of labor subsequent to the implementation of the contract responsibility system in enterprises, a number of surplus staff and workers have been separated from their posts and have had to await other job assignments. If enterprises still have to pay for the expenses assigned to these staff and workers in overall financing, their burden will be increased, their economic performance will be affected and their level of profit retention will be lowered. This is obviously not conducive to the implementation of the contract system. Since the movement of labor across the barriers of ownership, regions, and trades is likely to increase, questions such as who is going to pay for the expenses assigned to these personnel in overall financing, how should the scale of pension be fixed, and how should the expenses already paid be settled and appropriated between ownerships, regions, and trades should be carefully studied on the basis of thorough investigation.

In enumerating these problems of overall financing in society for the pension fund, my intention is decidedly not to negate the effectiveness of this reform. In my opinion, taking this practice as an important step in the reform of the pension system is a necessary and timely move that will help ameliorate problems in actual work. The important thing is that we should not over-exaggerate the role of this step and should lose no time developing the reform of the pension system to greater depth.

### III

We should plan our reform of the employee pension system from two perspectives, namely, the target model for long-term development and interim measures to be adopted in the near term.

In light of our large population, low level of economic development, rapid aging of the population, and other specific national conditions, the target model for the reform of the employee pension system should feature the following characteristics:

1. Joint efforts of the state, the enterprises and the individuals in raising the pension fund. One reason for this is that the steady increases in the number of retired staff and workers and in the scale of retirement benefits have made it necessary to open up new channels of fund raising to meet the growing pension expenses in order to reduce the burdens of the state and the enterprises. The other reason is that we must correct employees' over-dependence on the state on the question of old-age pension and gradually strengthen the sense of self-care among staff and workers. This will appropriately defer the consumer demands of some people, thereby ameliorating the swelling of consumer demands. Pension insurance fund contributed by the individuals can be divided into two parts, mandatory and voluntary. Payment of a mandatory pension insurance premium should be the prerequisite for employees to enjoy the statutory pension insurance provided by the state.

2. The practice of a method of pension fund raising which combines cash receipt and payment with partial accumulation. Cash receipt and payment, where revenue is determined by expenditure, is the basis of our present pension system. This practice does not involve too many risks in a situation where wages and prices are subject to the control of mandatory state plans and where the number of retired staff and workers is relatively small. As economic reform deepens, the above conditions will change. Unless we change the practice of cash receipt and payment and gradually increase the pension reserve, we will find ourselves in a dilemma when faced with a massive increase in post-retirement expenses.

3. Establish a multi-level and multi-form retirement insurance system. We must change the existing homogeneous state of the retirement insurance system. In terms of the level of insurance, statutory retirement insurance should not have too high a standard and should be based on the principle of ensuring the basic livelihood of retirees. Insurance by enterprises should serve as a supplement to statutory retirement insurance. It should, on the one hand, provide the basic supplements in accordance with state laws and decrees and, on the other hand, increase the pension reserve in light of the level of profit retention by the respective enterprises. In terms of the form of insurance, this retirement insurance system should, in the main, have diversified standards and forms that suit the characteristics of employees of state

enterprises, state functionaries, employees of urban collective enterprises, the three kinds of partially or wholly foreign-owned enterprises and township enterprises, the self-employed, and the vast numbers of peasants.

4. Uphold the principle of the unity of rights and duties. Insurance, whatever its form or level, must uphold the unity of rights and duties. Rights must have correlative duties. The rights and duties of pension payers, managers, and beneficiaries must be clearly defined and must be made mutually restrictive and conditioning through specific requirements in the management system. The scale of benefits offered to pension beneficiaries must be commensurate with the contributions they made during their employment. Procedures governing the usage of the pension fund should also be clearly specified to guarantee and increase the value of the pension reserve and strictly prohibit the loss or transfer of pension reserve.

### IV

On the basis of the present method of overall financing in society, we should further speed up the reform of the pension system and gradually move toward the target model for long-term development. In my opinion, the key tasks for our work in the immediate future should include the following:

1. Clearly specify the position and role of the state in the retirement insurance system. In our present retirement insurance system, the meaning of the central position of the state has been distorted. From this misunderstanding grows the mentality of dependence, thinking that all post-retirement expenses should be borne by the state and that the state should support all retired staff and workers. What this implies is that once a person becomes an employee, his or her old-age care over the next score of years becomes the sole responsibility of the state. Some people even mistook this for the superiority of socialism. We should soberly think this over. Is this possible in a country such as China, where per-capita GNP is a mere \$400 and where labor productivity is not high? The role of the state should simply be to undertake to protect the basic livelihood of its retired staff and workers (in fact, when the number of retired staff and workers has reached the peak, even this will become an arduous task). It should emphasize the stipulation of laws, regulations, and policies in order to provide behavioral guidance to enterprises and individuals.

2. Maintain a steady pace of development in overall financing in society. Some people are of the opinion that the scope of overall financing in society should be continuously enlarged, and that the ultimate goal is the realization of a standardized percentage for overall financing in the whole country. They think that we should remove the disparity in burdens between enterprises before proceeding to address this problem between regions. In my opinion, the imbalance between regions in terms of their contribution to post-retirement expenses has a complicated history and is the result of a host of historical and current reasons. Overall social

financing can, by its very nature, balance and regulate the burdens of different enterprises. This is in contradiction to the role of enterprises as relatively independent commodity producers. It is wrong to think that the more balanced the burdens of enterprises in overall financing in society, the better the role and effect of the exercise. At present, efforts to bring about a unified standard for the whole country as quickly as possible regardless of existing conditions not only lack practical necessity but will encounter numerous difficulties in actual operation. We will only achieve the opposite results if we hope to achieve quick success and try to bring about a unified standard indiscriminately.

3. Start the mechanism of individual participation in the raising of the pension fund. After getting a clear picture of the role played by the state in retirement insurance for staff and workers, making haste to readjust the present method of calculation for overall financing in society, introducing the system of social security number, and creating a complete set of records for personal retirement insurance fund will become the key to arousing the individuals to invest in the pension fund.

In my opinion, if we attribute employees' lack of interest in pension reserve to their low wage level, or even think that we will never be able to start the mechanism of individual participation without a substantial increase in wages, we are not being all-sided in our view. The steady increase in the saving deposits of urban inhabitants in recent years is a case in point. Here, the crux of the problem lies in the fact that the individuals have not been taken into consideration in the calculation of overall financing in society. The staff and workers have no idea how much pension reserve they have to their credit or whether it is sufficient to meet their living expenses in their old age. If they increase their investment in personal pension reserve, how much will they get after a number of years and what will the effect be? Will it be "leveled off" or misused? People will not blindly invest their money when they are not clear about these questions. Why is it that people can be motivated to save up for their children's wedding, home purchase, or large commodities but not for their old age? The answer is that the expected effects are clear for the former but obscure for the latter. We should set up files on the pension reserve of individual employees, and the expenses paid by enterprises toward overall financing in society should also be broken down on a per-capita basis. Since expenses paid toward overall financing are in proportion to total wages, and total wages are made up of the wages of individual employees, it is not too difficult in actual practice to set up files on individual pension reserve. With these files, staff and workers may inquire about the pension their enterprise has put aside for them and will know exactly how things stand. On this basis, we can then replace the existing practice of basing retirement benefits wholly on the standard wage scale immediately before retirement with one which fixes retirement benefits mainly on the basis of the entire retirement fund contributed during one's period of employment (the

total contributed by the state, the enterprise and the individual concerned) and which also appropriately takes other factors into account. In this way, it will be much easier to start the mechanism of individual participation in the raising of the pension fund.

4. Introduce the system of cash receipt and payment with partial accumulation as quickly as possible. Two factors are responsible for the urgent need to speed up the accumulation of the pension fund. One is the rapid process of the aging of our population, with the retirement peak just over ten years away. The other is that after the introduction of overall financing in society, a portion of the fund has precipitated over the years and have accumulated to a considerable amount. Under the existing system, it is not clear as to who is responsible for guaranteeing and increasing its value. Besides, it is possible that this fund may be misused or misappropriated at any time. The precipitation of this fund does not imply the practice of the partial accumulation system. Here, the fundamental distinction lies in the fact that there must be specific and unified stipulations regarding the amount and proportion of the precipitated portion of the pension fund, the time limit of fund raising, the principal means of and persons responsible for guaranteeing and increasing its value, as well as the targets, time, and methods for the use of this portion of the fund. Some of the procedures involved must also have a legal basis. As I see it, the present practice of the separate management of the pension fund for regular workers and the pension fund for contract workers is essential and should be continued. The trend of development is that a large portion or the entire amount of the post-retirement expenses contributed by contract workers will become the main source of the precipitating accumulation fund. Based on the economic situation in our country, the state is the only entity capable of assuming responsibility for guaranteeing and increasing the value of a pension reserve worth several billion yuan and for its management and usage. It is thus necessary that we incorporate this fund into the state plan and the state budget as quickly as possible.

5. Bring about and gradually perfect the method of socialized management. At present, overlapping setup, lack of proper rules and regulations, non-standard procedures in the usage of funds, and the poor quality of managerial personnel are found to varying degrees in the work of overall financing in society in various localities. This not only affects the progress of work, but may drain the precipitation of our hard work of overall financing, thereby greatly dampening the enthusiasm of our enterprises and individuals. Thus, the development of a better method for the socialized management of overall financing has become an urgent matter. Streamlining and merging overall financing organs in various names, reducing the overhead cost of overall financing, and strengthening the auditing and supervision of various outgoing items are important tasks that urgently need to be strengthened.



## INDUSTRY

### Industrial Technology Policy Examined

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[Article by Deng Shoupeng (6772 1108 7720) and Bao Ke (7637 0344). "China's Technology Policy for Industry: Problems and Countermeasures"]

#### [Text] I. History and Present State of Affairs

Forty years after Liberation, China has established a comprehensive, well-founded, and stratified technology system for industry. A complete system of research and development has also been developed. The achievements have been great. However, many complications and problems have cropped up in the course of industrialization. Analysis of these problems will help us select a correct policy for the progress of our industrial technology. Initial analysis has revealed the following major problems:

A. Putting undue emphasis on the extensive development of the industries and ignoring the need to strive for intensive development with technological progress playing the leading role. Industrialization in New China follows a staggered course of development alternated by the strategy of giving selected industries preferential treatment and the compensatory strategy characterized by readjustment. The former plays the leading role in this process, and is aimed at the extensive reproduction of the industry groups. When this strategy can no longer be sustained, the latter takes over to make up the deficiencies. The fundamental reason for this phenomenon is the guiding ideology which puts undue emphasis on the rate of development and relies on administrative means to push for the quantitative development of the industrial structure, while the question of upgrading and optimizing the industrial structure has never been fundamentally resolved, and the decisive role played by technological progress in the upgrading and optimization of the industrial structure has been overlooked.

B. The prolonged separation of scientific research institutions from the production sector. Under the old structure, the principal task of enterprises is production, with research institutions carrying out research behind closed doors or half-closed doors. The only links between the two are the functional departments of the government. Due to the clogging of the channels and poor organization, it is difficult to convert scientific and technological achievements into productive forces. Enterprises do not have prompt access to new technology, technological process and products. They are slow in technological progress and lack the drive and strength to achieve technological progress. The research institutions, on the other hand, are divorced from production. They lack the stimulus of demand and tasks coming from the production sector and do not have sufficient strength to conduct intermediate tests. The majority of their achievements

either show an undue emphasis on high-quality, precision, and sophistication or remain at the stage of research and development. This situation gives rise to a non-innovative production cycle which lacks market drive and the desire for technological progress. This accounts for the poor competitiveness and low productivity of China's industries.

C. The technology policy relies heavily on military industries and on science and technology to catch up with and surpass the advanced. In 1956, China announced its first long-term plan (12-year plan) for the development of science and technology. This plan played an excellent role in defense construction at that time. However, it mainly centered around a limited number of military projects, paid much more attention to the integration of technology with military needs than to the integration of technology with economic needs, and neglected the need to develop science and technology for civilian use. The second plan promulgated in 1963 was aborted due to political reasons. Influenced by the mentality of catching up and surpassing, the "Eight-Year Plan for Science and Technology" promulgated in 1978 went overboard in its objective and scale but lacked the necessary guarantees. Very few projects were in fact carried out.

The fourth plan for the development of science and technology implemented since 1983 has earnestly drawn lessons from the past. It put forward for the first time the idea that we should make use of modern science and technology to transform the traditional industries and establish new technology-intensive industries. A special feature of this plan is that, as corresponding measures, the assessment and formulation of technology policies have been extensively launched, and technology policies for four specific areas have been successively promulgated. This is of major significance to the readjustment of the industrial structure, the rational allocation of productive forces, the technological transformation of industry and agriculture, the development of new industries, as well as the current drive to improve the economic environment. However, because these policies cover a very wide area, and supporting policies and measures are lacking, they have not played their respective roles to the full. The technology policies already promulgated have clearly defined systems for various industry groups, but follow-up investigations have revealed the following problems. First, the problem of how to improve the economic performance of various industry groups in close conjunction with the optimization and upgrading of the industrial structure, further clarify the main direction of attack and the basic technological approach for raising the technological level of industries and, through rational guidance, promote the technological progress of the industries level by level and with specific areas of emphasis while being handicapped by the shortage of funds and resources. Second, the need to establish a new mechanism for the technological progress of the industries, have a clear idea of the

corresponding economic, administrative, and legal measures, and promote the commercialization, industrialization, and widespread dissemination of technology. For instance, with regard to the six basic industry groups (agriculture, forestry, animal husbandry, and fishery, the infrastructure—communications, telecommunications, electricity, public services, the basic industries—fuel, raw and semifinished materials, the equipment industries, the consumer goods industries, and the high-tech industries), we should, in light of the development of specific industries, the basic problems, opportunities, and challenges confronting these industries, as well as the necessary conditions for their technological development, fix the contents and key tasks of the industrial technology policies, the measures of implementation, and the order of priorities.

To facilitate research, we have, bearing in mind the characteristics and prospects of the development of industry groups in China, divided the industry groups into three categories. The first category refers to the "bottleneck" industries and includes electricity, coal, petroleum, metallurgical, communications and transportation, raw and semifinished materials, and telecommunications industries, as well as the production of essential components and parts which are always in great demand by upstream industries. The second category refers to the high-tech industries and includes information, electronics, biotechnology, new materials, new energy, aerospace, aviation, laser, marine, and automation industries. The third category refers to the mainstream industries, that is, industries not covered by the abovementioned two categories. The division of these three categories of industries has practical significance in the technological progress of the present industries, as each category has its own characteristics in terms of its technological objectives, choice of technology, and ways of achieving technological progress. This division overlaps at certain points—the "bottleneck" industries are not independent and are subject to the other two categories in strict industrial classification. The classification made here is only for the convenience of making policy distinctions, and is more or less in conformity with the situation of industrial development in China.

In the following sections, we will study the major problems of the three categories of industries and suggest ideas for corresponding policies. It should be noted that according to the above classification, there are quite a number of general policies which are applicable to all industrial categories, and the overwhelming majority of these policies relate to the mainstream industries. For this reason, we will discuss this category first.

## II. The Question of the Technology Policy for Mainstream Industries

The mainstream industries constitute the main pillar of the national economy. They provide society with equipment and infrastructure and provide the people with daily necessities. They are the basic industries that support the national development, and are the major

foreign-exchange earners. The technological progress of a country's mainstream industries is a reflection of that country's technological capability and level. It conditions the development of high-tech industries, and has a considerable impact on the "bottleneck" industries. The question of the technology policy for the mainstream industries is shared by practically all other industries.

### A. Development of general basic technology

1. General basic technology covers three aspects: (a) Theories of basic technology, including basic research on specific applications and the formulation of principles and basic methods for general basic technology. (b) General technology for the manufacturing of products, including the theories, specifications, methods, data, and tool systems for product design. (c) General technology for technological processes, including technological theories, specifications, and procedures, the equipment, quality, and structure of corresponding technological processes, and testing and detecting techniques. Most general technology can directly affect the technological level of various industry groups. Some of them are even capable of having great impact beyond the limits of specific industries.

2. General basic technology often affects the performance of various industry groups. There are three main reasons for the sluggish development of general basic technology: (a) The improvement of general basic technology tends to produce greater indirect and long-term benefits for industries outside the group. The direct and immediate benefits it brings to industries within the group seem small by comparison. (b) The use of resources and funds in a scattered way and repetitive investment resulting from the creation of barriers between higher and lower levels and between different departments or regions have not been fundamentally put to an end. (c) Owing to the undue emphasis on the production of products, getting products produced seems the only thing that matters. The innovation of components and parts for various products is thus neglected. This restricts the development of new products and affects the improvement of product quality and the performance of economy as a whole.

3. In the past, we paid considerable attention to the "tackling of key tasks" in the development of products and tried to "use the specific to guide the general." Very little time or energy was put into the improvement of general basic technology. We should now attach sufficient importance to general basic technology, which is numerous and touches on practically every aspect. Systematic and earnest development of this technology has been seriously lacking all these years. The obvious gap between Chinese technology and the advanced level abroad has seriously weakened the competitive power of Chinese products in domestic and international markets. The short-term behavior of enterprises notwithstanding, an important reason why this technology cannot be developed quickly is that enterprises cannot shoulder

development tasks on their own because they are handicapped by the shortage of development capability and funds. In general, they prefer to use matured technology and are unwilling to take risks developing and applying new technology. We hereby propose that a system of cooperative research and development by enterprises be established. This system should feature the following points: Cooperation between enterprises and between enterprises and research institutions should be organized and encouraged, and joint investment and the sharing of achievements should be based on the terms of the agreement. A given rate of tax reduction or refunds should be granted to developmental investment aimed at the promotion of technological progress. The government should grant subsidies or other preferential treatment to important cooperative development projects.

#### B. The modernization of agrotechnology.

1. Over 800 million Chinese people live in the rural areas, where the existing level of productive forces is still very low but where the potential for development is enormous. The improvement of the material and technological foundation of agriculture is of special importance to the progress of industrial technology in China; it is the key to modernization. In order to effect a major breakthrough in agricultural productive forces, it is necessary to increase investment in science and technology.

In recent years, China has seen a favorable turn in the development and promotion of agricultural technology. Considerable progress has been made in crop cultivation, animal husbandry, aquatic production, forestry, and the processing of agricultural and sideline products. A three-tier structure of basic research, application research, and developmental research in agriculture has taken shape in the whole country.

2. The modernization of agrotechnology is a long-term and arduous task for China. The current problems are as follows: (a) The speed at which scientific and technological achievements are popularized is too slow. Investment in agricultural science and technology usually does not require too much money but can produce quick results. The input-output ratio is high. Although the agricultural market is coming along well, the speed at which scientific and technological achievements are commercialized is low. The main reason for this is the presence of barriers between regions and the obstacle of the small peasant mentality. (b) The agro-scientific research cycle is usually rather long. Without sufficient accumulation of technological knowledge and a fair degree of continuity, subsequent technological progress will be affected. As things now stand, accumulation in this regard is far from adequate. (c) The fact that soft scientific research on agricultural problems is weak has affected the adoption of a scientific approach in the decisionmaking process. For instance, on the questions of how large should the scale of intensive farming be, and what is the optimum scale for cultivation in the eastern, western, southern, northern, and central parts of China

and for different types of crops, profound scientific proofs are still sadly lacking.

3. In order to bring about the vigorous development of agriculture, we must, on the one hand, rely on the development of new agrotechnology to promote developmental agriculture and agriculture that can earn foreign exchange. On the other hand, we must substantially raise the degree of industrialization of existing agricultural resources on a large scale through the adoption of an organizational approach in agricultural operation.

Our proposal is: (a) Centering around the objective of implementing the technology policy for agriculture, we should improve the supporting measures, gradually establish a rational structure of agrotechnology, and increase the degree of commercialization of agricultural products. The degree of intensive farming of various crops in different regions should be specified, and steps should be taken to make effective use of agricultural aviation facilities, farm implements and tools, fertilizers and pesticides, and other material input. Management over forestry, the production of new feeds, fish breeding and poultry raising, processing, protection of agricultural and natural resources, and so on, should be strengthened. (b) Bearing in mind the backwardness of our agrotechnology and the feebleness of our technology promotion system at the grassroots level, we should work on the stipulation of an "agrotechnology promotion law." This law should clearly spell out the methods for the establishment of agrotechnology promotion teams, their tasks, duties, rewards and punishments, as well as the organization and management of promotion as a whole, thereby replacing the rule of man by the rule of law in the promotion of agrotechnology. (c) We should take further steps to coordinate various types of agricultural plans as well as the organization and management of these plans in order to concentrate our limited resources and speed up the modernization of agriculture. As regards on-going plans, such as the Seventh 5-Year Plan, the "Spark Program," the "Harvest Program," the "Food Basket Project," the "Education Program," and the "Program To Help the Poor Through Science and Technology," we should strengthen coordination and avoid confusion and repetition.

#### C. The evaluation and selection of technology.

1. The evaluation and selection of technology are the foundation upon which a country's technological and economic development plans and policies are formulated; they constitute an important basis of macroeconomic policy decisions. Unless this work is properly carried out, there is no way that we can understand what technology China needs, what its technological capability is like, which of its technological achievements have market potential, and which kinds of technology have a future in industrialization. The evaluation and selection of technology form an important link in the formulation of technology policy. China has just begun its work in this connection, but the foundation is still extremely weak.



2. Due to our weakness in the evaluation and selection of technology, the range of programs, plans, and policies we have formulated for the development of science and technology are always out of step with the needs of industrialization and social and economic development. The salient expressions of this discrepancy are as follows:

(a) The evaluation and selection of technology is usually carried out at the lowest level. Since the formulation of development programs and policies involves many spheres, departments and levels, there is bound to be waste in the course of implementation if the evaluation and selection of technology are not fully assessed at the departmental and national levels. (b) Many programs and policies are rather hastily drafted and promulgated. Our evaluation and selection of different technology are lacking in in-depth and systematic consideration, and are not based on conscientious and multi-dimensional analyses of our natural, production, human, institutional, and policy resources. (c) In the import of technology, standardized measures of evaluation and selection are still absent. We do not even have an itemized list of imports to be encouraged or prohibited. (d) A system of technological statistics which covers the whole society has not yet been established and put into operation. We do not have a set of indicators for evaluation and selection to go by and have not yet established a specialized system for making evaluation policies.

3. Based on the situation of scientific and technological development at home and abroad, we should strive to complete the following tasks in the immediate and intermediate future: (a) We should organize an authoritative and transsectoral committee for the evaluation and selection of technology. With people from different quarters taking part in the decisionmaking process, we can guarantee the maneuverability of various programs and policies. (b) We should strive to strengthen the system of technological statistics and establish a dynamic data bank on the technological capability and demands of the state as quickly as possible. (c) We should lay down a number of key rules and regulations concerning the evaluation and selection of technology, and promote a set of methods for evaluation and selection, together with the relevant calculation parameters. (d) We should clearly define the basic principles for the evaluation and selection of technology in China.

#### D. Technology market and technology transfer

1. Since the beginning of reform, we have seen much progress in the combination of technology and production. We have also accumulated considerable experience in technology transfer. The network of the technology market is expanding, and organizational forms such as trade fairs, information exchanges, fixed-direction services, technological contracts, and joint development projects have developed. However, the system which separates science and technology from production still exists, and the application of technological achievements in production is still at its initial stage. The number and quality of technological achievements cannot satisfy the

needs of production, the technology market is still underdeveloped, the network for the supply of and demand for technological achievements is still not unimpeded, and countless fruits of scientific and technological research and items of imported technology have yet to be popularized and disseminated.

2. The current problems include the following: (a) The technology market still awaits improvement. The main channel for the commercialization of technological achievements is the administrative system rather than the technology market. At the present stage, the technology market is just a medium where supply and demand come into contact with each other. Market laws and regulations have yet to find their full embodiment. The price of technological products remains low and is mostly determined by the buyer. The majority of technological products are hardware, and genuine software technology hardly ever enters the transaction process. In the technology market, the level of commercialization is low and sophisticated technology can rarely be found. Most of the buyers are medium-sized and small enterprises or township enterprises. Large enterprises seldom set foot there. The above situations show that a full-fledged technology market has not yet taken shape. (b) Policies, laws, and regulations have yet to be clarified, and management has yet to be strengthened. The technology market is a new type of market at a higher level. The lack of clearcut policies and measures has resulted in confusion in certain areas. For instance, regarding the scope of technological commodities, the drawing up of technological contracts, the question of taxation in technology trade, and so on, most of the time there are no rules and regulations to go by, while at other times policies are difficult to comprehend and implement because they are issued by different departments. Furthermore, technology trade in most regions does not have a unified organ of examination and approval. Various departments and regions have their own systems. There are even new barriers between higher and lower levels and between different departments and regions. Irregularities have also become a prominent problem. For instance, township enterprises are taking technology and trained personnel away from the state without compensation, and individuals are seeking exorbitant profits for themselves. (c) There is a shortage of specialized personnel for the management of the technology market. Consultation services are poor and the channels of information exchange are anything but smooth.

3. Suggestions for solving the abovementioned problems:

(a) The short-term objective and orientation for the commercialization of technology should be further clarified. The short-term objective should be to convert into productive forces as quickly as possible the major achievements of scientific research during the Sixth 5-Year Plan. Major efforts should be devoted to organizing the assimilation of existing imported projects. Policies should be introduced as quickly as possible to invigorate the large and medium-sized enterprises, and

draw them into the technology market. Steps should be taken to promote the readjustment and upgrading of the industrial structure on a large scale during the Eighth 5-Year Plan period and to push the technology market to a higher level in order to bring about a benign cycle of the commercialization of technology. (b) Efforts should be made to improve policies, laws, and regulations, strengthen management, and guide the healthy development of the technology market. Steps should also be taken to put an end to the situation where policies are promulgated by different departments, lay down laws, regulations, and policies for the technology market, and improve the rules governing competition in the technology market. (c) Positive measures should be taken to renovate the organizational system. For instance, research institutions under ministries should gradually be amalgamated with large enterprises or business conglomerates. Technology centers for different industries should be established or, alternately, enterprises and research institutions should work closely together. Research institutions should speed up the integration of science and technology with production through technology transfer, buying shares with technology, assigning technological personnel to work in enterprises, and other methods.

#### E. The scientific and technological quality of workers.

1. The technological quality of the industries is the combination of the quality of man and the quality of equipment. The technological level of industries is to a fairly large extent determined by the scientific and technological quality of their workers. On the whole, the scientific and technological quality of our industrial workers is rather low. Data obtained from a general survey of industries show that in the machine-building industry, only 5 percent of the workers have a tertiary education. Their quality is considerably lower than their counterparts in the developed countries. Besides, the proportion of technical workers is small. In the machine-building system, the ratio between senior, mid-ranking, and junior technical workers is 6:47:47, with mid-ranking and junior technical workers constituting the overwhelming majority.

2. The key to the improvement of the scientific and technological quality of workers lies in stressing education and training and making positive efforts to explore ways and means of reforming education. Statistics show that in the developed countries, 70 to 90 percent of the increase in labor productivity is attained through efforts to raise educational standards and improve scientific and technological capabilities. In recent years, education in China has been in a critical situation; ideological work has been slackened; outlay for education has been steadily on the decline; the quality of teachers is unstable; students are weary of study; and cases of drop-outs have frequently occurred. Unless measures are promptly taken to thoroughly reform the education system, the stamina of economic development will be seriously impaired.

3. In order to improve the scientific and technological quality of our industrial workers, we should, besides paying attention to basic education and higher education, strive to do a good job in the following areas: (a) We should put secondary technical education in an important position. Major efforts should be devoted to setting up specialized or technical secondary schools of various types to train a great reserve army of high-caliber workers. (b) We should make a success of continuing education and in-service education. With the rapid development of science and technology in the contemporary world, the cycle for updating knowledge is shortened. The technology mastered by scientific and technological personnel enters into the phase of semi-exhaustion after about five years. Workers in general are also faced with the question of re-training. There is every need for us to quickly fix our goal and measures for the system of continuing education, and establish and improve a regular, institutionalized and scientific system of continuing education. (c) With regard to the systems of personnel management, personnel movement, and wages, there should also be supporting measures that can make the best use of human resources and people's talents.

#### F. The import, assimilation, and innovation of technology.

1. Over the past 40 years, China spent about \$25 billion on the import of over 10,000 items of technology and equipment. Between 1983 and 1985, the volume of imports for the exclusive purpose of technological renovation amounted to over \$10 billion. Following the reform of the foreign trade system and the transfer of the power to examine and approve imports to the lower levels, an "import crave" for equipment and software broke out in many localities. This practice unavoidably brought about blind and repetitive import, mainly the import of complete sets of equipment and assembly lines for consumer goods. Although we have made some achievements in the digestion, assimilation, copying, and innovation of imported items, problems abound on the whole. A large number of imported items have performed poorly in production, the degree to which Chinese components and parts are used is very low; innovation has not been carried out in most items; and there is a general shortage of funds for the digestion and assimilation of imported items.

2. There are three prominent problems in technology import and the work of digestion and assimilation at present: (a) The management system is in a chaotic state. There are too many horizontal organs of power. Examination and approval procedures become very complicated because these organs have exclusive control over particular industries and are in a position to formulate their own policies and negotiate with foreign countries on their own. This system is bound to result in repetitive and blind imports of a low level. (b) The improper selection of technology. This is chiefly manifested in upstream industries and products in favor of downstream ones, and slighting software technology in favor

of hardware technology. In technology selection, some industries do not have a clearcut guiding ideology for the level of the project to be imported. They often waver between the two extremes of the high-quality, precision, and sophistication on the one hand and the lowly on the other. (c) The work of digestion and assimilation is poorly done. This can be seen in the fact that some trades and enterprises show little or no interest in the digestion and assimilation of imported items and only care about short-term benefits. Because funds for digestion and assimilation have not been taken into account when import projects are being assessed, having money to import technology but no money to organize assimilation becomes a common phenomenon in many localities. Some units keep their imported items to themselves. They are unwilling to enter into technological cooperation or joint development with other enterprises, or with other trades and regions, but do not have the technological strength to digest and assimilate the imported items on their own.

3. As long as China lags behind the outside world in technology, the import of technology will go on. Hence, we should deliberate on this issue thoroughly and from a long-term point of view. Tentatively, it is proposed that: (a) We should determine the strategic goal and focus of technology import. On the basis of getting a clear idea of the industrial policy and technology policy, we should formulate a plan for technology import, putting the focus of technology import on meeting the needs of the "bottleneck" industries and "bottleneck" technology, increasing our independent development capability, optimizing the industrial structure, and building up our technological strength. We should also produce a list of imports to be encouraged or restricted without delay. (b) We should put an end to the chaotic state of the management system. It is proposed that the State Planning Commission, the Scientific and Technological Commission and the Ministry of Foreign Economic Relations and Trade should set up a unified and authoritative leadership group to plan and formulate policies on technology import and manage major projects. At the same time, guidance documents should be issued for imported projects in general, and the work of project assessment should be strengthened. (c) We should give impetus to the digestion and assimilation of imported projects. Clearcut requirements for digestion and assimilation should be put forward at the time of assessment of the feasibility of projects, and corresponding measures for reward and punishment should be taken. The focus may be put on the digestion and assimilation of products and the technology for the production of raw and semi-finished materials and spare parts as well as on copying and innovation. A system of information on imported projects should be established for the storage of technological and economic records. This will help coordinate technological proliferation between different trades and regions. (d) We should discuss and draw up rules and regulations concerning technology import and create a legal environment for the work of technology import.

G. Technological progress in medium-sized and small enterprises and township enterprises.

1. At present, the output value of China's medium-sized and small enterprises (including township enterprises) accounts for more than one-third of its GNP. These enterprises are providing job opportunities for that part of the labor force which has become estranged from agriculture and have laid the foundation for achieving a per-capita income of \$800 by the end of this century. However, many of these medium-sized and small enterprises are still plagued by problems. Major problems in connection with technological progress include the following: (a) There is a shortage of technological personnel; management is backward; and development strength is meager. (b) Equipment is obsolete and the quality of products is poor. (c) Consumption of energy, resources and raw materials is excessive. (d) The damage done to natural resources has resulted in serious environmental pollution. Although preliminary guidance policies and measures have been introduced with medium-sized and small enterprises, particularly township enterprises, in mind, effective policy guidance and restrictions with regard to technological progress are still lacking.

2. The following problems which are likely to affect technological progress are found in the operation of medium-sized and small enterprises: (a) Systems of medium-sized and small enterprises whose main task is to provide auxiliary items for large enterprises have not yet been established. (b) Most medium-sized and small enterprises are still practicing extensive management and operating on a low level of technology, and eagerly await tempering in their ability of innovation. (c) Medium-sized and small enterprises have an acute shortage of technological personnel. The quality of their personnel is poor, having neither the ability to achieve technological progress nor the awareness to do so.

3. Medium-sized and small enterprises cannot completely rely on market forces to adjust their pace of technological progress. The task of the government remains heavy. This mainly covers the following aspects: (a) The improvement of the quality of enterprises. Those enterprises that violate the government's industrial policies, seriously pollute the environment, and produce products of inferior quality should be restricted and ultimately eliminated. (b) Concerning the technological structure of medium-sized and small enterprises, particularly township enterprises, the emphasis should be on the establishment of a multi-level structure. At present, the main task is to increase the interest and ability of medium-sized and small enterprises in digesting and assimilating the technology of large enterprises. At the same time, efforts should be made to produce key products according to local conditions, build up the prestige of "factories producing a single line of products," gear to the needs of the domestic market, and break into the international market. (c) Promote standardization in the management of medium-sized and small enterprises. This includes the implementation of



the policy of "three improvements and one increase," that is, improvements in technology, management and quality and increase in economic efficiency.

#### H. Ecological and environmental protection.

1. Environmental protection is a basic policy of China. In the 1990s, environmental protection should be given special attention, and efforts should be made to draw from the lessons of ecological damage, wastage, and environmental pollution which occurred in the course of industrialization in abroad. While implementing the policy of putting prevention first, priority should be given to the development of pollution-free technological processes. Efforts should also be made to maintain and establish the benign cycle of the natural ecological environment and protect China's environment and resources.

2. The technology policy concerning environmental protection covers the following six aspects: (a) Environmental protection in regional development and construction. This includes the environmental impact of regional planning, the utilization and protection of mineral and water resources, and environmental protection feasibility studies for large projects. (b) Environmental protection in the industrial sector. This includes the prevention and treatment of atmospheric pollution, water pollution, and pollution by solid wastes and the development of new environmental protection technology. (c) Environmental protection in urban construction. This includes synchronized planning for the urban areas and the environment, the establishment of a rational urban ecological structure, the readjustment of the urban industrial structure and layout, the improvement of urban air quality, the protection of water resources, the development of noise control and electromagnetic pollution technology, afforestation, and the treatment of garbage and waste. (d) The protection of rural environment. This includes the prevention and treatment of pollution by township enterprises and the maintenance of the ecological balance in the agricultural areas and natural reserves. (e) The development of environmental protection technology and equipment. This includes the development and production of such equipment, and the development of new materials and monitoring instruments. (f) Specific environmental protection policies of various regions and departments.

3. The technology policy for environmental protection must be implemented in conjunction with technology policies and management measures related to the environment. For instance, as corresponding measures of the environmental protection policy, the policy regarding the utilization of resources, the policy regarding the development and utilization of energy, and the policy of giving selected industries preferential treatment in investment, as well as the awareness of the whole nation to protect the environment, should be promote in a coordinated or even synchronized way in order to overcome shortsighted behavior in the utilization of resources and the subsequent disastrous results. In the

course of implementation, efforts must be made to enhance the awareness of the whole nation in environmental protection.

#### I. The system of social support in technological progress for the industries.

Technological progress for the industries must proceed in an appropriate macroeconomic environment. The society should provide a system of support that is conducive to technological progress. This system should feature the following subsystems:

1. Financial policies, including taxation policies (regarding tax kinds, tax rate, rate of depreciation, and so on) and policies regarding expenditure (including investment in science and technology, order of priority and scale of investment, the system for the distribution of products, and so on).

2. Monetary policies, including the interest rate on investment, the direction of credit, the utilization of foreign exchange, the limit of insurance coverage, preferential price, negotiated price, and price readjustment.

3. Educational policies, including policies regarding educational investment, educational reform, the structure of knowledge, and vocational training.

4. Scientific and technological legislation. This covers the basic law, organizational law, and labor law for science and technology, as well as laws governing research institutions, rewards, appraisals, promotion, academic bodies, foundations, risk investment, atomic energy, high-tech parks, and zones.

5. Ideology. This covers politics, society, concepts, ethics, psychology, as well as various laws and regulations.

#### III. The Question of the Technology Policy for the "Bottleneck" Industries

The term "bottleneck" industries refers to the infrastructure and basic industries which are responsible for "bottlenecks" in our economic development at present, and covers energy, coal, petroleum, metallurgy, communications and transport, telecommunications, raw and semi-finished materials, and industries producing essential components and parts needed for upstream production. These industries are now lagging behind the development of the industrial sector as a whole, particularly the growth of the processing and consumer goods industries, and have held back industrial development as a whole. The emergence of "bottleneck" industries has led to economic fluctuations and infringed upon the optimum allocation of resources and macroeconomic interests. International experience indicates that these industries should enjoy a lead in the initial period of industrialization but in China their development has been held back for a long time. The major reasons why the "bottlenecks" have not been eased all these years are as follows: The pricing system is twisted, investment is far from adequate, and macroeconomic control is ineffective. There

are also problems with our technology policy. The solution of these problems will help eliminate the "bottlenecks."

#### A. The "bottleneck" industries and the technology development sequence.

1. The "bottleneck" industries and the manufacturing industries that provide them with the necessary equipment should be accorded priority in the development of the national economy. This has been verified by the experience of China and other countries. The present strain on electricity, coal, metallurgy, railroad transport, telecommunications, and so on has seriously stifled the development and normal operation of various industries. The problems include: (a) Coal production and transport are in great demand, hydroelectricity is not well-developed, petroleum and natural gas reserves are inadequate, there is a critical shortage of electricity for production and everyday use, the technology and management of the energy system as a whole are backward, wastage and pollution are both wreaking havoc. (b) There is an acute shortage of iron and steel, non-ferrous metals, organic high-molecule materials, and inorganic non-metallic metals; mine development has a weak foundation; the comprehensive utilization of resources is poorly organized; technological equipment is backward; and the level of technology in the application of materials is low. As a result, the output, varieties and quality of products produced cannot satisfy our needs. (c) There is a general shortage of transport capability in railroad, highway, inland river, air, and pipeline transport; the rate of growth is sluggish; transport structure is not rational; technological equipment and management are backward; wastage is serious; and accident frequency is high. From the above, we can see that the "bottleneck" industries have three problems in common: First, acute shortage of products or services; second, poor equipment and technology; and third, the coexistence of shortage and wastage.

2. Two major problems can be found in our technology policy: First, the targeted level of technological development is low. In many important aspects of the technology of our "bottleneck" industries, we are not only lagging a long way behind the advanced world level but are lagging behind the developing countries. Second, there are mistakes in the time sequence of technology selection for different trades. Since projects of the basic industries usually require a longer cycle and a larger scale of operation, they should be given priority so they can render support to the downstream industries. In recent years the manufacturing industries have been importing production lines from foreign countries in large quantities, thereby greatly increasing their productive capacity. Because essential raw and semifinished materials and components and parts are not available in domestic markets, they have to rely on imports to sustain production. Within the "bottleneck" industries, the speed of the development of the coal industry is lagging behind that

of major coal-consumers like the electric and iron and steel industries. This also reflects a confusion in the time sequence.

3. The "bottleneck" industries are important industries of the national economy which are handicapped by a scarcity of resources. Under the present circumstances when it is not possible to quickly straighten out the price system and the macroeconomic system, there are three possible ways to eliminate these "bottlenecks" and accelerate their technological progress: (a) The appropriate heightening of the goals of technological development. While objectively analyzing the targets of economic development and the targets of the development of industry groups, we should put forward a target which entails an appropriate lead in light of the technological capabilities of China and within the framework permitted by our social and economic conditions. (b) A feasible and selective technology import policy aimed at promoting technological progress in the "bottleneck" industries should be drawn up as quickly as possible. Items of import that can help increase the productive capacity of our energy, communications, telecommunications, and essential raw and semifinished materials industries should be accorded priority in examination and approval and should be offered reduced tariffs. Tax remission and reduction and a higher rate of depreciation should be offered to new products and new services already put into production in the "bottleneck" industries so they can carry out transformation and expansion on their own. (c) So far as new projects of the "bottleneck" industries are concerned, because the prices of their products or services have a smaller elasticity of demand and elasticity of supply, it is difficult to subject them to market regulation under the existing price system. Since the development of these projects has a close bearing on the lifeline of the economy as a whole, the state should assume responsibility for the planning, construction, transformation, and management of these projects to help raise the technological level of these projects, increase the degree of concentration of investment, accelerate the optimization and upgrading of the "bottleneck" industries, and ultimately push forward the coordinated development of various industry groups.

#### B. The technological equipment of "bottleneck" industries.

1. Improving the backwardness in the equipment of "bottleneck" industries is an important measure for the elimination of "bottlenecks."

2. The bulk of the major equipment of the "bottleneck" industries is made up of large-scale and complicated equipment, such as large-scale mining and dressing equipment, large-scale converters and rolling mills, natural gas transmission systems, and so on. This equipment have the following characteristics: (a) They have an important effect on raising the technological level of industries. (b) The development, production and utilization of these products usually require transsectoral coordination, not just coordination between the technology

developers and the producers, but also coordination among the users. (c) Considerable investment is needed, particularly in the case of major and key equipment. Investment will have to cover research and development, minor tests, intermediate tests, production, and maintenance. (d) At the present stage, development and production of most major equipment are virtually impossible without the direct support, guidance, and coordination of the government.

3. In order to put an end to the low level of equipment used in the "bottleneck" industries, particularly the low level of their large-scale equipment, we must do a good job in the following areas in addition to increasing investment. (a) We must combine the development of equipment with research on technological processes and strengthen our capability in the research and manufacturing of large-scale equipment. (b) We must, through analysis and dissection, imitate and innovate the production of large-scale equipment being imported in considerable quantities. (c) We must accord priority to the development of energy-saving mechanical products, such as transmission machinery, energy-saving products, and products using residual heat. We must strictly adhere to the economy of scale requirements in approving new products for the production of transport facilities, and strictly restrict or abandon those projects which do not measure up to the requirements or affect other establishments, in order to truly protect those projects that are performing well. In the feasibility assessment of major projects, we must further implement the principle of making the decisionmaking process more scientific and democratic, and take precautions against letting local interests affect overall interests so as to avoid new wastes and new "burdens."

#### C. Technological progress in large enterprises of the "bottleneck" industries.

1. The "bottleneck" industries include some key enterprises of a large or even gigantic scale. These key enterprises have been suffering from aging technology in recent years. Their products are generally outmoded. The fact that these enterprises are becoming run-down has posed a serious threat to our industrial development. Carrying out effective technological transformation to revitalize these large enterprises and close their gap with the world's advanced level has become an important issue in the development and reform of industries in China.

2. On the premise that relations of property rights in large key enterprises remain basically unchanged, we should, for a considerably long time to come, strive to bring about technological progress in these large enterprises. Most important of all, we must create a fine, open, and stable environment of macroeconomic policies and support these enterprises with effective policies. When readjusting policies concerning technological renovation, attention must be paid to the following: (a) Policy transparency. The more clearcut and precise are our policies and the more effective is their role in

providing guidance and imposing constraints, the greater will their effects be. (b) Policy stability. Policy fluctuations may provoke shortsighted behavior in the technological progress of enterprises, while stable policies will promote sustained and stable technological progress. (c) Policy coordination. The formulation and implementation of various policies must be mutually supportive and be well-coordinated so as to meet the needs of technological progress. (d) Policy maneuverability. We must not simply concern ourselves with the formulation of policies and principles and forget all about the detailed rules of implementation.

3. Increasing the enthusiasm of large enterprises, particularly large enterprises of the "bottleneck" industries, in striving for technological progress is the basic guarantee for promoting the technological progress of Chinese industries. In the formulation and implementation of technology policy for the industries, we must guarantee the smooth progress of product development, renewal of equipment, technological cooperation, and environmental protection. (a) We must strengthen the capability of these enterprises in the development of new products, speed up the updating of products, restrict and eliminate the production of obsolete products, and make the updating of products and services compulsory. This means that we must change the situation where certain products are under exclusive control, stimulate effective competition, increase the proportion of research and development funds in gross sales, increase intellectual investment in the development programs year after year, and make the best use of existing scientific and technological personnel and technical workers. (b) We must make full use of existing technological equipment and resources, promote repairs aimed at improvement, reform traditional equipment with new and high technology, and give new life to old equipment. (c) We must establish bases for the research, design, and manufacture of large and purpose-built equipment, renovate existing large enterprises with state-of-the-art technology, base ourselves upon what is available in China, and reduce investment on imports. We should encourage and support the establishment of developmental institutions along the lines of trades or groups, which will admit as their members enterprises manufacturing purpose-built equipment. These institutions will strive to increase the research and development capability of enterprises, as well as the rate of equipment utilization, and achieve better economies of scale. (d) Enterprises of the "bottleneck" industries are usually major sources of pollution. In the course of technological transformation, efforts must be made to guarantee that sources of pollution are brought under control and that pollution is minimized. (e) New forms of international cooperation should be launched. From the import of production technology and their equipment, cooperation should be extended to the joint development of products and multinational operations.



#### IV. The Question of the Technology Policy for the High-Tech Industries

High-tech industries are industries that play the guiding and key role in present-day international economic relations and trade. Their vitality finds expression in the production, by means of ever-improving high technology, of new products that are of immense commercial value and market potential. This technology includes electronic information, new materials, new energy, biological and medical engineering, aeronautics and astronautics, marine technology, laser and nuclear technology, integration of mechanical and electrical products, and intelligent machinery. Sparing no effort to develop high-tech industries is the road we must follow to upgrade the technological level of our industries.

China is one of the first developing country to develop high technology. It has the ability to tackle high-tech projects and has initially established a high-tech industry of its own. Since Liberation, investment in high technology amounts to over 100 billion yuan, about 6.3 percent of total investment. China now boasts a high-tech industrial force of over 3 million people and has a sizable and comprehensive system of research, development, and production. At present, high technology has gradually infiltrated into other industries, and some products have found their way into the international high-tech market.

However, there are also problems in the development of high-tech industries in China. The following are three of the main problems: First, investment is inadequate and funds are scattered. In the developed countries, investment in research and development accounts for 2-3 percent of their respective GNP, most parts of the investment spent on the development of high technology. By comparison, our high-tech industries appear to be lacking in momentum and proceeding at a slow pace. Second, there are flaws in planning and management. At present, several plans for the development of high technology are underway. These include the "863 Program," the "Key Task Program," and the "Torch Program." It is not easy to coordinate their implementation. At the same time, the force for tackling key projects is scattered and tends to hit out in all directions. Our high technology is slow in its industrialization and commercialization process and thus cannot compete in international markets. The existing high-tech development zones are weak in their development capability and tend to be formalistic. Third, international cooperation is becoming more difficult. Many high-tech products are subject to restrictions imposed by some countries and cannot be obtained through normal channels of international trade. Our volume of high-tech exports accounts for less than 0.5 percent of total international exports of high-tech products. Our entry into the international market is still beset with obstacles.

A. The industrialization and commercialization of high technology.

1. The development of high technology and related industries covers three levels, namely the research and development of high technology, the industrialization of high technology (intermediate tests and production to scale), and the proliferation and application of high technology (market selection and commercialization). International experience has proven that a scientific and technological lead itself cannot bring about economic superiority, and that large-scale industrialization and commercialization is the only basis upon which competitiveness in high technology is to be judged.

2. In the process of the industrialization of high technology, the following problems await solution: (a) The intermediate links in the industrialization of high-tech research achievements, including intermediate links, technology transfer, the digestion and assimilation of imported technology, and so on, are weak links in the growth chains of our high-tech industries and need to be strengthened. (b) Investment in the course of industrialization is far from adequate. (c) There is a shortage of high-caliber personnel in our high-tech industries.

3. Guided by the Central Committee's principle of "combining military needs with civilian needs and wartime needs with peacetime needs," various national defense industries have made positive efforts to transfer military technology to civilian production in recent years. The forms of transfer roughly include the following: Accepting commissions for the construction of key and large projects; assignment of technological achievements; package transfer of softwares and hardwares; assisting civilian enterprises in the digestion and assimilation of imported technology; scientific and technological personnel providing technical services to the society. Practice over the past few years proves that not enough has been done in the transfer of military high technology to civilian high-tech industries. The real strength and potential of military high technology have not been fully brought into play, and the present level and efficiency of transfer are low.

4. Besides giving high-tech industries the necessary support in terms of financial policy, credit, and taxation to get them started, we should also pay attention to the following in order to promote the development of high-tech industries in China: (a) Appropriate preferential treatment should be given to high-tech industries in matters of investment, management, and services to facilitate the development of these industries and optimize the industrial structure. (b) A correct policy should be laid down for personnel development. Turning our human resources to best account by ensuring personnel mobility is the prerequisite for the rapid development of high-tech industries. The two-way flow of high-tech personnel should be permitted in the three municipalities of Beijing, Tianjin, and Shanghai and in the coastal areas. At the same time, every effort should be made to absorb high-tech personnel from abroad, such as employing foreign experts and fully bringing into play the role of overseas Chinese students. (c) Basing ourselves on military high technology, we should organize

national military high-tech transfer companies and industrialize the military high technology through selection, transfer, development and promotion. (d) We should get the elite scientific and technological personnel organized and establish multinational high-tech enterprise groups. The products should be geared to world needs in order to break into the international market. (e) We should strengthen guidance and management over the medium-sized and small high-tech enterprises so they can truly become an active force of high-tech innovations.

#### **B. Risk investment in the development of high technology.**

1. Risk investment is commercial investment of a high level and has technological development and commercialization as its medium; it is the strong drive behind technological development in this century. In particular, it stimulates the rise and growth of high-tech industries.

Risk investment has the following characteristics: It is geared to the needs of new technology companies; security and mortgage are not needed; a high rate of return (doubling the return in five years) is sought; and great risks are involved (with a bankruptcy rate of around 60 percent). The financial lever of risk capital can quickly turn high-tech achievements into productive forces. Risk investment, which is on the rise in China, will have an active role to play in the development of our high-tech industries as well as in speeding up the technological renovation of our medium-sized and small enterprises and promoting cooperation with the rest of the world in the spheres of high technology and finance.

2. Through practice in the past few years, we have accumulated some experience in risk investment. The idea of risk investment is being understood by more and more people, but there are still many difficulties and problems: (a) Risk investment is of little real help to high-tech enterprises. In foreign countries, risk investment is chiefly invested in high-tech industries and in new products of the new industries, or projects of technical innovation with a big profit margin. In China, however, risk investment chiefly goes to traditional projects undertaken by small enterprises, and is not risk investment in technology in the normal sense. (b) Risk investment is still at an initial stage in China, and its economic strength and operational level are still quite low. For instance, there is a shortage of funds and fund-raising avenues, turnover is small, the technological level of the invested bodies is low, and the organizational form is too homogeneous. (c) Risk investment going to long-term projects is insufficient. In general, the market maturity period of high-tech projects is three to five years, and continuous investment is needed throughout this period. Affected by the instability of our economic environment, our risk investment business is rather weak. The fact that long-term credit is hard to obtain is unfavorable to the development of high-tech industries. (d) There are also problems with regard to policies relating to risk investment. For instance, policies

concerning financing for risk investment, investment in fixed assets, and taxation in technological enterprises of a risky nature have yet to be introduced as a supporting measures to facilitate the growth of genuine risk investment in new technology.

3. In order to truly turn risk investment into a financial lever for supporting the development of high-tech industries, the following must be done: (a) Gradually enlarge the pool of funds and develop sources of high-tech investment. (b) Encourage high-tech enterprises to make use of risk investment. (c) Attract international risk capital by offering preferential policies to promote the growth of our high-tech enterprises and boost the international competitive power of our products. At the same time, we should, through direct participation in international risk investment, obtain new technology and new products and promptly pass these on to our high-tech enterprises. If necessary, we could cooperate with international risk investors and share the fruits through joint investment.

#### **C. The establishment and growth of high-tech development zones.**

1. High-tech development zones are comprehensive bases combining scientific research, education and production. They are intelligence-intensive and have the development of high technology and new industries as their objective. China began setting up high-tech development zones in Shenzhen, Shanghai, Beijing, Wuhan, Tianjin, Guangzhou, and other places in 1982. There are also plans to set up such zones in 13 other locations. The establishment and growth of high-tech development zones in China have the following characteristics: (a) Propelled by the market economy, they develop by drawing strength from the superiority of the management system and policy of township enterprises. (b) With the rational flow of scientific and technological personnel in the establishment of high-tech development zones, a contingent of scientific and technological entrepreneurs has taken shape. (c) They have the full support of local governments and society and are provided with the necessary space and basic conditions. (d) From the time of their establishment, attention has been paid to the import of trained personnel, funds and technology to ensure their development and innovation. Efforts are also made to develop international markets.

2. There are still many problems and difficulties in the construction of high-tech development zones in China. The main problems and difficulties are: (a) The development of high-tech research and development and their production have not become the main aspect of industrial activities in the high-tech development zones. Some of these zones are in danger of becoming high-tech product trading zones. According to investigations, the technical income of scientific and technological enterprises accounts for less than 20 percent of their total sales income, and the percentage is tending to decline. (b) The high-tech zones also lack the mechanism by which to guide their products into the international markets. They

have become a large group of enterprises engaging in low-level, repetitive competition in a limited area, and are mainly fighting for a share of the domestic market. (c) Most scientific and technological enterprises run by the people in the high-tech zones have a poor performance to scale. The accumulation of capital is mainly carried out through the transfer of high-tech products by capitalizing on the price differences between regions and between domestic and international markets. (d) The formation of existing high-tech development zones is rather spontaneous and lacks planning. There is little room for expansion, and social support and infrastructure within the zones cannot satisfy the needs of development. (e) There is a serious tendency toward formalism. Rather than capitalizing on their qualitative advantage afforded by their high technology, some development zones simply group certain types of enterprises together and try to attract enterprises (mostly commercial enterprises) to go and set up operations there by offering "inner-circle preferential treatment."

3. In the development of high-tech zones, strict control over site selection and planning is essential. Publicity must be practical and realistic. A genuine enterprising spirit should be promoted, and "rush action" is to be avoided by all means. On the question of reform, the following must be taken into consideration, bearing in mind the characteristics of high technology and the need to satisfy requirements in terms of long-term, coordinated, and flexible development: (a) Personnel policy. Mobility should be permitted. Trained personnel should be employed without sticking to a rigid pattern, and incentives should be offered by way of wages, remuneration, and rewards. (b) Funds policy. Besides giving encouragement to risk investment and absorbing foreign capital, the state should also be relied on to initiate, evaluate, and examine major high-tech development projects and to bear risks. The banks should extend credit to these projects. In addition, the state should offer preferential terms to encourage local and non-governmental institutions to set up financial institutions in the development zones. (c) Taxation policy. In light of the experiences of other Asian countries and regions, preferential treatment should be offered to high-tech enterprises in terms of income tax, real estate tax, product tax, resources tax, regulatory tax, and so on, while strictness should be exercised in the examination and approval, confirmation, and supervision of high-tech enterprises. (d) Formalities over foreign trade contacts and personnel exchanges should be simplified to afford greater convenience. (e) There should be special legislation governing the high-tech zones.

#### D. International competition and cooperation.

1. Taking an active part in international competition and cooperation in the sphere of high-tech industries is of major importance to preparing China for a new round of global economic and technical competition in the 1990s and early next century and increasing China's share in international high-tech trade. It is through international competition and cooperation that high technology

develops. The "Eureka Program," the "Strategic Defensive Program," and so on, are all undertaken through international cooperation.

2. The following problems have been exposed in international competition and cooperation in high technology: (a) The political factor plays a key role in international high-tech transfers. Many high-tech achievements and products are not available through normal trade channels. Key high-tech systems are protected by companies, and some countries and international organizations have imposed compulsory limitations. (b) China does not have effective high-tech protection measures. Imported high-tech projects (including software and equipment) have seriously affected high-tech research, development, and production in China. Many markets have fallen into the hands of foreigners. For instance, foreigners have controlled over 80 percent of our optical fiber market, and their market share is expanding. There are symptoms of a malignant cycle. (c) The lack of a sound legal system has also affected the launching of international competition and cooperation according to international practices. The characteristics of high technology have not been fully taken into account in the patent law, the copyright law (particularly as it pertains to software protection), and the trademarks law, and rules and regulations have not been laid down in various specific areas of high technology. This not only affects domestic cooperation and competition, but presents obstacles to our participation in international high-tech development programs and to the establishment of multinational high-tech companies. After entering the 1990s, this will also affect high-tech cooperation with Hong Kong, Macau, and Taiwan. (d) Our high-tech products are not prepared for entry into international markets. We do not have strategies for economic activities and technology trade that are in conformity with international competition requirements, or corresponding enforcement agencies for that matter, and cannot effectively coordinate and circulate our trained personnel, funds, and resources in accordance with international commercial requirements.

3. In our efforts to speed up the process of the industrialization of high technology from the angle of national strategy, we must seek development opportunities in the following areas: (a) We must clearly understand the objectives of international cooperation and make use of foreign resources to develop ourselves. Our strategies and programs for high-tech development are different from the alliance type of plans among the developed countries, which already have well-developed networks of international exchanges and organs for the circulation of capital and technology. Bearing in mind our own strong points, we must actively open up new channels of cooperation, create new forms of cooperation, enter international organizations on a selective basis, and carry out extensive and mutually beneficial cooperation with multinational companies. (b) Efforts should be made to gradually perfect the system of intellectual property protection with the patent law, the copyright



law, and the trademarks law as its basis. A set of laws and regulations for the protection of high-tech property rights, such as property rights relating to softwares, integrated circuits, and biotechnology, should be laid down. Laws governing the invigoration of high-tech industries, such as information, new materials, and aerospace industries, should also be drawn up. (c) A policy of offering limited protection to domestic high technology and high-tech products should be instituted. The use of home-made, high-tech products should be encouraged. If a high-tech product has reached or approached international standard, the import of similar products should be restricted. Domestic high-tech products should be protected through the imposition of higher tariffs and import industrial and commercial levies to stimulate and promote the maturity and development of our own high-tech industries. (d) Efforts should be made to build up China's first generation of multinational high-tech companies. We should select key high-tech enterprises as targets, give them encouragement, guidance and assistance in their effort to develop into fair-sized operations, and help them develop into multinational high-tech companies within 10 to 20 years. They should take part in international high-tech competition and accumulate experience in the process in order to increase the vitality of our high-tech industries and seize a share of the world market for our high-tech products.

#### Light Industry Export Quality To Improve

HK0409021190 Beijing CHINA DAILY in English  
4 Sep 90 p 2

[By staff reporter Qu Yingpu]

[Text] The Ministry of Light Industry has decided to concentrate its multi-billion yuan investment in the next five years on improving the quality of its exports to meet a target of \$15 billion in overseas sales by 1995.

According to Vice-Minister Yu Zhen, most of the investment will go to technological innovations on the manufacturing of such major export items as canned food, embroidery, pottery and porcelain, machinery and electronic products.

The money will be used to improve the quality and packaging of traditional exports while cultivating new products to meet changing demand in the international market, he said.

The strategy "is to achieve an annual light industrial export growth rate of 7.4 percent," Yu told China Daily in Beijing.

The ministry has invested 4.7 billion (\$1 billion) during the Seventh Five-Year Plan (1986-90) on 828 export-oriented production projects.

"Without the backing of quality products," the vice-minister said, "any efforts to expand exports are useless."

Shoddy light industrial exports led to losses and harmed the reputation of Chinese products on the world market over the past few years.

For instance, a United States importer found many of the 44.6 million Chinese pencil erasers he bought fell off and the pencil lead was not centred. About 45 percent of 400 dozen Chinese enamel basins shipped to Singapore were damaged because of poor packaging. These cases cost Chinese industry millions of dollars in compensation payments.

To curb such disasters, Yu said, the ministry has set up 55 quality inspection centres and 73 inspection stations across the country, investigating 300 light industrial products.

Two of the centres inspecting the quality of household electrical appliances in Beijing and Guangzhou were accepted by a world authoritative organization for membership last October.

Yu said his ministry and the State Administration of Import and Export Commodities Inspection have applied a quality licence system to a dozen products including refrigerators, washing machines, bicycles, sewing machines, and clocks.

Light industrial products have been China's major export items, accounting for 20 percent of the country's total overseas sales, and such exports are growing more rapidly than overall national exports.

According to Chinese Customs statistics, light industrial products exported during the first half of this year accounted for \$6.1 billion, 30.8 percent more than during the same period last year. Exports are expected to top \$10.5 billion this year. The growth rate was much higher than 15.4 percent national export increase.

#### Total Output of Primary Energy in August

HK1109105990 Beijing CEI Database in English  
11 Sep 90

[Text] Beijing (CEI)—Following is a list of China's total output of primary energy in August 1990, released by CSICSC [China Statistics Information Consultancy Service Center]:

Item	Unit	8/90	8/89
Total energy output	10,000t of standard coal	8475.0	8639.0
Raw coal	10,000t	8584.0	8833.0
of Planned	10,000t	4167.0	3982.0
Crude oil	10,000t	1169.6	1175.6
Natural gas	100m cm	12.61	12.70
Electric power	100m kWh [kilowatt hours]	529.5	504.4
of Hydropower	100m kWh	125.3	119.1

Notes: m—million, cm—cubic meter, t—ton

**Shandong Develops Power Industry***OW1109135590 Beijing XINHUA in English  
1024 GMT 11 Sep 90*

[Text] Jinan, September 11 (XINHUA)—The bottleneck for economic development in east China's Shandong Province—shortage of power supply—has been broken thanks to the local effort in development of power industry, according to provincial officials.

Now the power transmission network with the main line of 220-kilovolt transmission line covers all parts of Shandong Province. Its annual electric energy production reaches 41.8 billion kilowatt-hours, leading the whole country. Its electric installed capacity is 7.41 million kilowatts, ranking second of all provinces in China.

In recent years, Shandong Province has collected funds from both the local government and individuals to develop electric power. Its annual investment in power industry exceeded one billion yuan (about 200 million U.S. dollars) in the past decade.

Since 1979, Shandong Province has expanded and set up six large-scale power plants. The new increased generating capacity reached more than four million kilowatts, which exceeded the total electric energy capacity installed in the previous eighty years.

All industrial enterprises, construction sites and other businesses in Shandong Province can be supplied with enough electric power now.

In addition, all towns and 91 percent of the villages in rural Shandong have enjoyed conveniences brought by electric power.

Thanks to the ensured power supply, Shandong's revenues, total industrial and agricultural output value and gross domestic product took China's first, second and third places among all provinces, autonomous regions and municipalities in 1989.

**August Output of Raw Materials Reported***HK1109110790 Beijing CEI Database in English  
11 Sep 90*

[Text] Beijing (CEI)—Following is a list of the output volume of raw materials in August 1990, released by the China State Statistical Bureau:

Item	Unit	8/90	8/89
Iron ore	10,000t	1450.0	1414.4
Pig iron	10,000t	536.5	498.9
Steel	10,000t	543.0	527.7
Rolled steel	10,000t	423.67	422.78
Ferro alloys	10,000t	20.58	21.20
Coke	10,000t	432.15	403.70

Ten non-ferrous metals	10,000t	19.73	17.73
of Copper	10,000t	4.53	4.79
Aluminium	10,000t	7.52	6.46
Copper products	10,000t	3.75	3.13
Aluminium products	10,000t	2.98	2.77
Alumina	10,000t	12.30	11.84
Sulphuric-iron ore	10,000t	113.70	104.81
Phosphorus ore	10,000t	198.93	186.55
Timber	10,000c M	193	212
Artificial board	10,000c M	18.11	21.46
Cement	10,000t	1766.1	1757.8
Plate glass	10,000c	633.83	609.91

Notes: m M—million metric; c M—cubic meters; c—cases

**Coal Production Dips; Electricity Output Up***HK1209025490 Beijing CHINA DAILY in English  
12 Sep 90 p 2*

[By staff reporter Huang Xiang]

[Text] China's coal industry suffered its first-ever drop in production this year in August, while electric power continued to chalk up impressive output increases, according to official statistics.

Coal output amounted to 85.84 million tons in August, down 2.8 per cent from last August.

The figure has brought the total output so far this year to 688.7 million tons, an increase of 4.2 per cent over 1989.

Officials blamed the August decrease on reduced demand, which has caused many mines to run well below capacity.

The industry started to experience a slowed increase in July when it managed a mere 1.9 per cent rise over the same month last year.

In August, locally-run mines registered a stunning nine per cent dip.

The sharp fall in production on the part of small local mines was in line with forecasts as the output in the previous month rose only 0.3 per cent from last July, a record low in 1990.

Officials say they expect further drops in production in small mines in the months to come as inventories get bigger and demand remains depressed.

Compared with their local counterparts, major state-run mines fared better in August as output registered a 4.6 per cent surge—to 41.67 million tons.

The figure brought the eight months' total from large state-owned mines to 329.8 million tons, a rise of 5.6 per cent over 1989.

State-run mines plan to produce 500 million tons of coal in 1990, 23 million tons more than in the previous year when the industry turned out a landmark 1.04 billion tons of coal.

In contrast with slowed coal production, the electric power industry continued to impress others in the energy field with a healthy gain of five per cent in output.

Around 53 billion kilowatt-hours of electricity were generated in August, five per cent more than last August.

By the end of August, total generation for the year reached 403 billion kilowatt-hours, an increase of 6.3 per cent over 1989.

The industry's target for the year is 580 billion kilowatt-hours of electricity, of which a better part will come from thermal power plants.

Also in August, heavy rain brought the nation's oil fields a 0.5 per cent drop in output for the second consecutive month.

The figure was 11.69 million tons in August. In July crude oil output declined 0.6 per cent.

#### **Chemical Production Drops; Exports Rise**

HK1409023890 Beijing CHINA DAILY in English  
14 Sep 90 p 2

[By staff reporter Xie Songxin]

[Text] China's chemical industry reported a drop in output last month, while exports saw a hefty rise in the first half of this year.

Production in China's chemical industry dipped by 2 per cent in August, following a 13.9 per cent drop in July over June in production value terms.

The industry's gross output value was 6 billion yuan (\$1.3 billion) last month, with the average daily production standing at roughly 200 million yuan (\$43 million), a 2 per cent drop over July but 2.7 per cent more than the same month last year, according to an official report yesterday.

However, the report from the Ministry of Chemical Industry said the industry's total production value during the January-August period rose 5.4 per cent over the same period last year to slightly above 50 billion yuan (\$11 billion) because of high growth rate before July.

Ministry officials said persistent sluggishness in domestic demand, increasing stockpiles, short supplies of cash and electricity, the industry's slow progress in adjusting product mix and the need for equipment overhauls in many plants were all factors affecting chemical production.

They said that the peak season for the sale of chemical fertilizers and pesticides had passed with the completion of the nation's harvests. This also affected industry's production.

Meanwhile, chemical exports rose by 14 per cent during the first half of this year over the same period last year, while imports declined by 24.8 per cent, according to Customs statistics.

The January-June exports were \$1.6 billion, and imports were \$2.98 billion, the chemical industry's trade deficits reduced by \$1.18 billion, compared with the same period last year.

The fall in imports was caused by cuts in the amounts of most chemical products China bought abroad. However, chemical fertilizer imports increased by \$27 million during the period.

Major chemicals that enjoyed big export rise included rubber products, dyestuff, organic chemicals, synthetic materials and magnetic recording materials.

Officials from the Chemical Industry Ministry said trade relations with Western countries were recovering, although at a gradual pace; they did not elaborate on this.

In August, chemical producers in 15 provinces and municipalities reported production drops, with Jilin and Hunan provinces suffering the heaviest reductions.

## **CONSTRUCTION**

#### **Major Capital Construction Projects Proceeding Well**

OH0309224690 Beijing XINHUA in English  
1527 GMT 3 Sep 90

[Text] Beijing, September 3 (XINHUA)—Construction of the 200 national major projects is proceeding smoothly, according to sources at the State Planning Commission.

The fulfilled investment in these projects in the first half of this year reached 15.5 billion yuan (about 3.3 billion U.S. dollars), which accounted for 38.8 percent of the annual planned quota this year as against the national average figure of 34.5 percent for the total capital construction.

With the construction of the major projects, the country has got 950,000 more kw of electricity, four million more tons of coal mining capacity, and 3.16 million more tons of crude oil recovering capacity. Meanwhile, 124 km of electrified railway lines have been newly built.



**Construction Industry Prospects Outlined**

90CE01564 Beijing JIANZHU JINGJI  
[CONSTRUCTION ECONOMY] in Chinese No. 6,  
18 Jun 90 pp 7-12

[Article by Xiao Tong (5135 2717): "Outlook for the Construction Industry During the 1990's"]

[Text] China has scored magnificent achievements during 10 years of construction and reform. The decade of the 1980's was a decade of vigorous development for the construction industry, and a decade in which technical quality and managerial quality greatly improved. Because of the overheating of the economy during the past several years, as the decade of the 1980's turned into the decade of the 1990's, even while the country was in the midst of deepening reform of the economic system, a policy of improving the economic environment and restructuring the economic order was advanced for the more healthy development of system reform. During improvement of the economic environment and restructuring of the economic order, the central authorities resorted to cutbacks in the scale of investment in fixed assets and tightened the money supply. As a result, the construction industry fell on very hard times and entered a trough. First, the cutbacks in the scale of investment in fixed assets meant insufficient work for the construction industry; and second, the construction industry's profits steadily declined. Given this state of affairs, how should we regard the situation during the 1990's?

#### **1. Momentum Toward Sustained, Steady, and Coordinated Development of the Construction Market**

The "CPC Central Committee Decision on Strengthening Relations Between the Party and the Popular Masses," passed by the Sixth Plenary Session of the 13th Party Central Committee said that "The decade of the 1990's will be a key 10 years in China's development. It will be a decade in which we will continue to move ahead along China's distinctive socialist road from a foundation of the major achievements made during the 1980's to win even more magnificent victories. Despite the changeable international situation and the temporary difficulties that still exist inside China, so long as we handle our own affairs well without missing opportunities, and so long as we rally spirit, particularly moving the national economy ahead, we will be in an invincible position. Comrades throughout the Party, particularly cadres in high- and mid-level positions in the party, must resolutely and fully implement the basic line of adherence to the four basic principles and adherence to reform and opening to the outside world centering on economic construction. They must also implement the ideological line and the mass line of seeking truth in facts. They must arouse all positive factors, unite all forces that can be united, and continue to render a good performance in improving the economic environment and restructuring the economic order, and in the deepening of reform to advance sustained, steady, and coordinated development of the national economy, striving to realize the

strategic goals of political, economic, and social development during the 1990's." This passage portrays the main outlines of China's economic development during the 1990's.

Comrade Li Peng's government work report to the Third Session of the Seventh NPC [National People's Congress] also expounded this point of view in a profound way. He discussed the valuable experiences accumulated through practice about steady political, economic, and social development as follows: "It is necessary to adhere to a policy of sustained, stable, and coordinated development of the national economy throughout. In building, there can be no impatience for success; in reform, there can be no impatience for success; and in improving the economic environment and restructuring the economic order, there can be no impatience for success. If we are to realize the strategic goal of quadrupling gross national product by the end of this century, we will have to maintain an annual 5.4 percent general rate of economic growth. The key to doing this lies in improving economic returns and maintaining overall balance and a coordinated structure that enables economic development to orbit in a benign cycle."

This overall trend cannot be lost sight of when looking at development of the construction industry. Sustained, stable, and coordinated action is the main thrust of development. Naturally, as a result of readjustments of the industrial structure, there may be ups and downs between one industrial sector and another. Construction industry development has never been even between one region and another.

The construction market depends on fixed assets investment. The situation regarding investment in fixed assets during the past several years is shown in the following table.

Year	Total Investment (100 Billion Yuan)
1985	254.319
1986	301.962
1987	364.086
1988	449.654
1989	400
1990	410 (Planned)

The foregoing table shows that the peak of economic overheating occurred in 1988. It was in 1988 that cuts in the scale of investment in fixed assets were called for, and by 1989 control occurred, investment falling 11 percent from the previous year. After adjustment for price factors, the actual decline was 20 percent. The plan for 1990 shows a steadily rising trend.

The history of building socialism in China shows that the national economy went through several periods of inflation and readjustment, the period of greatest gyrations being from 1961 through 1963. After three years of

hardship, a comeback began in the third year. Some figures for the period are excerpted below:

Year	Gross Output Value of Society (Billion Yuan)	Gross Output Value of the Construction Industry (Billion Yuan)
1960	267.9	24.8
1961	197.8	9
1962	180	7.4
1963	193.6	9.7
1964	226.8	15.1
1965	280.5	17.7

A large dip occurred in investment in capital construction at that time. The gross output value of the construction industry declined enormously, falling in 1962 to only 29.8 percent of what it had been in 1960 for a more than 200 percent decline. This situation lasted for three years. Despite proposals for readjustments during the 1970's and 1980's, except for the Great Cultural Revolution period, when the gross output value of the construction industry declined greatly in 1967 and 1968, and when it declined slightly from the previous year during 1976 and 1981, in every other year the gross output value of the construction industry was higher than in the previous year. During the present cutback in the scale of investment in fixed assets, gross output value of the construction industry fell 11 percent between 1988 and 1989, and an upturn began in 1990.

On the basis of historical data, we can make the following deductions: 1) This cutback in the scale of investment in fixed assets is second only to that of 1961, but the hardships it occasions are far less than in 1961. It is not very severe. The two cannot be compared. 2) It was not until nine years after the large dip in 1961 that the gross output value of the construction industry exceeded that of 1960. In both 1976 and 1980, however, in less than a year's time it exceeded the gross output value of the construction industry during the previous years. 3) The present cutbacks will not last too long. Possibly by 1992 the gross output value of the construction industry may exceed that of 1988 in renminbi terms.

In his work report to the Third Session of the Seventh NPC, Comrade Li Peng said that realization of the strategic goal of quadrupling the national economy by the end of this century will require maintenance of a general 5.4 percent rate of economic growth. I believe that the gross output value of the construction industry will be no less than 5.4 percent each year beginning in 1992. This is because the rate of growth during the past 40 years shows a growth rate for the construction industry that is higher than the growth rate of gross output value for society as a whole. The construction industry is the productive force that translates investment in fixed assets into reality. When increase in investment in industry was higher than the increase in industrial production in the past, the central authorities' call for a change in the high-input

low-output situation was entirely correct. However, this requires a process of change. Requirements of the four modernizations and the modernization of cities, the increase in housing construction, and the steady improvement in utility requires attendant development of the construction industry.

Let us further analyze the words of the leading comrades on the Central Committee. The scale of investment in fixed assets during 1988 and 1989 was termed a "cutback" in the past, but this year it is termed "control." Cutback conveys an impression of reduction, while control conveys a sense of no undue increase. When participating in the discussions of the Hunan delegation to the Third Session of the Seventh NPC, Comrade Zou Jiahua [6760 1367 3478] said that the State Council had adopted a series of measures to spur economic development, which would not only solve numerous problems in the production process, such as the shortage of working capital and triangular debt, but would also do all possible to turn on the "market" faucet. First is the construction of markets. In terms of the actual amount of work done, capital construction for 1990 is about the same as during 1989. The emphasis is on key projects as a means of stimulating demand for raw and processed materials and for electromechanical products. Second is consumer markets; third is further development of export markets, and fourth is the tourist market. In short, once the market faucet is turned on, production will become lively, funds will circulate fast, and the economy will turn the corner. We related these words of Comrade Zou Jiahua to thoughts about the situation in the construction industry. The slump in the construction industry is bound to have a bad effect on the construction materials industry, the electromechanical products industry, and the real estate industry. As the economy develops, the construction industry will have to develop too. The position of the construction industry in the national economy cannot be underestimated.

As a result of the stimulation of investment in fixed assets during the past several years, the number of people employed in the construction industry increased somewhat. Nevertheless, by comparison with other countries of the world, not very many people are employed in the construction industry in China. Let me now show in the following table the number of people employed in the construction industry as a percentage of the total work force in several major countries:

Country	Total Employment (Million)	Percentage in		
		Agriculture	Industry	Construction Industry
China	527.83	60	18	5
United States	112.44	3	21	7
USSR	130.8	19	29	9
Japan	59.11	8	25	9

Country	Total Employment (Millions)	Percentage in		
		Agriculture	Industry	Construction Industry
West Germany	23.44	5	34	7
United Kingdom	24.99	2	24	6
France	21.28	7	23	7
Italy	20.99	10	23	9
Canada	11.96	5	20	6
Australia	7.07	6	19	7

China is a large agricultural country in which the percentage of the population engaged in agriculture is the largest among several of the major countries of the world, and in which the percentage engaged in the construction industry is the smallest. As socialist modernization develops, a shift of the surplus work force in agriculture to the industrial, construction trades, communications and transportation, and business sectors is inevitable. The building of cities, townships, and villages in China holds very great prospects, so serious attention should be given to this industry, which is able to employ a large quantity of labor. Between 1978 and 1988, the number of people employed in the construction industry in China increased from 8.79 million to 25.27 million, an increase of 16 million. If the number increases by an additional 10 million during the next 10 years, a very great change will occur in the building of the country's cities and countryside. The less developed a country, the smaller the percentage of the population in the building industry. This is a problem that should cause us to ponder. I believe: 1) The number of people in the building industry during the past two years was somewhat larger than necessary, but this is only temporary. 2) The percentage of people in China engaged in the construction industry is by no means large in comparison with other countries of the world, and this percentage should also increase in townships and towns in the future. 3) Development should be under plan guidance to avoid mindless action.

## II. Renewed Vigor in the Real Estate Industry and Steady Development

In his report to the Third Session of the Seventh NPC, Comrade Li Peng said, This year, "we intend to increase investment somewhat, mostly for use in key national construction and for the building of some medium- to low-quality housing in cities. At the same time the refurbishing or new construction of office buildings, meeting halls, and public accommodations is forbidden." "Reform of both the housing system and the social insurance system is to be actively and steadily carried forward." This was a signal for an upturn in real estate.

Real estate is closely associated with the construction industry. The development of real estate is bound to

stimulate development of the construction industry, and development of the construction industry provides fine conditions, in turn, for the development of real estate. The all-around development of real estate of the 1980's attested powerfully to this point. The all-around development of real estate saw the effective realization of urban plans for the transformation in a planned way of old city streets and areas, an increase in urban housing, and improvement of basic urban facilities. The all-around development of cities has become a major way in which to expand urban construction and increase construction funds.

The role of the construction industry as a pillar of the national economy should be fully analyzed. It should be studied in association with the real estate industry. The importance of the role of the construction industry may also be seen during improvement of the economic environment and rectification of the economic order. Whenever there is an overheating of investment in fixed assets, appropriate cutbacks are needed; however, when cutbacks are too severe, a slump in the construction industry is bound to ensue, occasioning a slump in the construction materials industry and in the electromechanical equipment industry. This results in unemployment for some people in industries that employ large numbers of workers. At the same time, reduced investment in fixed assets is bound to have an adverse effect on the addition of new production capacity. Enterprises must tap potential, but they cannot ignore the addition of new production capacity. Nor does industrial construction stand in isolation. Urban construction must keep pace, cultural and educational facilities must be developed, and the problem of housing for the people in cities and towns has to be solved. Development of the construction industry is an objective necessity. As to whether the construction industry is able to provide large amounts of accumulations, a concrete analysis is required and the ramifications must be looked at: 1) City and town construction enterprises, particularly large and medium-sized state-owned enterprises, by no means pay large amounts in profits and taxes. Statistics for 1988 show a total of 6.23 million people in construction enterprises under ownership of the whole people, profits totaling no more than 3.1 billion, and payments of taxes of only slightly more than 1.9 billion, less than the annual taxes paid by a single large industrial enterprise. 2) A very large proportion of those employed in the construction industry come from the peasant construction corps. At the end of 1989, 8.54 million people worked on city construction jobs, and these people were one important reason that local rural villages became prosperous. 3) In developing real estate, the construction industry indirectly provides fairly high economic returns, meaning the value that the construction industry itself creates. The construction industry does not exist just for its own sake. Now, let us analyze data collated by the Zhongfang Company on nine development tracts in nine cities. The figures in these data are for the period 1985 through 1988, and are in terms of prices prevailing at the time. The nine units created an average 500 yuan



per square meter built, 50 percent, or 250 yuan, of which derived from construction and installation. If earlier period project costs, basic facility costs, development administrative costs, and interest are added in, the direct cost is 398 yuan, or 79 percent. In addition are public facilities, educational facilities, cultural facilities and medical facilities in the tract, as well as associated water, electric power, gas, business network outlet points, and large municipal government facilities. This means that construction enterprises make a profit of only slightly more than 10 yuan in creating 250 yuan of value in the construction of one square meter of housing, while more than 100 yuan is made otherwise. In some large cities, houses sell for more than 1,000 yuan or more than 2,000 yuan per square meter, but the profit that construction enterprises realize is next to nothing and is largely paid away in contributions to municipal governments, in taxes, and in compensation paid for the razing and moving of houses.

Development of the construction industry should focus on study of the real estate market. During the 1980's, real estate developed very greatly. During the late 1980's, as a result of cutbacks in investment in fixed assets, real estate development likewise encountered very great difficulties. Thorough study shows the problems in real estate to be more difficult and more numerous than in the construction industry. Although both are problems related to macroeconomic regulation and control, for the construction industry the problems are largely fluctuation in investment in fixed assets, control of the construction market, and readjustment of certain economic policies. For the real estate industry, however, the problems are no general clearing away of the old economic patterns and the old system, and no consolidation of the merely partial changes made.

The status of city and town housing construction during the 1980's is shown in the following table:

Year	Total Investment (Billion Yuan)	State Plan Investment (Billion Yuan)	Alteration Funds (Billion Yuan)	Raised by Units Under Collective Ownership (Billion Yuan)	Individual Housing Construction (Non- Agricultural City and Town Population) (Billion Yuan)	Housing as a Percentage of Total Investment in Fixed Assets (%)
1980	12.736	11.166	0.84	0.33	0.4	20
1981	14.51	11.119	2.04	0.6	0.75	25.1
1982	18.765	14.105	2.88	0.92	0.86	25.4
1983	18.8	12.51	4.19	1.1	1	21.1
1984	19.59	13.58	3.43	1.22	1.36	18.3
1985	29.05	21.52	3.33	1.69	2.55	20
1986	29.19	18.94	3.345	1.884	2.94	16.1
1987	31.116	18.126	6.643	2.128	4.219	13.4
1988	37.143	19.806	78.71	2.623	6.693	12.8

Figures for 1989 are not yet available, but it is estimated that there will be no increase in state plan figures. The alteration funds shown in the table also contain other enterprise funds. The foregoing table shows gradual decline after 1985 in housing construction as a percentage of investment in fixed assets, and that most of this decline was in the portion under state plan. No problem of overheating existed in housing construction. The amount of funds put up by collective units and individual housing construction in cities and towns increased year by year, and enterprises' construction of housing and initiative also increased. Although not a large percentage, this trend of development should be recognized and encouraged.

Beginning in 1989, a slowing appeared in overall urban development. Comparison of the real estate industry in China with other countries of the world shows similarities, but also distinctive features. As society progresses and cities develop, real estate is bound to develop as well. This is common to the world as a whole. However,

development of real estate in China also has the following several distinctive characteristics: First, it emerged out of the clearing away of the product economy, and it is extraordinarily unstable. Second, it relies on credit, it does not have much capital of its own. Third, the sale of real estate is semicyclical. Mostly it is the sale by one state-owned unit to another, or at least entails public assistance; conditions do not yet exist for a large amount of individual sales. Fourth, it is conducted by housing development companies that deal mostly in turnovers from teams that have built residences under state control. Reduction of investment, curtailment of loans, and limitations on the purchase of houses stifle the development of housing. Traced to its source, the development of the real estate industry is driven only by the state-owned economy. It is not driven by the public economy. A house is the people's most important purchase. Outside of rural areas, city and town individual house construction is slight. In looking through some statistical yearbooks, I found that only wear and tear on houses is carried as consumption; the construction of

housing is carried as an accumulation. Housing construction is considered nonproductive construction, and nonproductive construction is usually entered in separate ledgers. Housing is an expenditure of greatest importance to the people, yet one cannot arouse people's interest in investing in housing. Numerous comrades say that sale prices of 150, 200, or 300 yuan per square meter of housing is too high. Actually, in large and medium-sized cities, even if only direct expenses such as construction costs and site acquisition expenses are considered, even a simple house cannot be built for 300 yuan per square meter. One can be built for about 200 yuan per square meter in large and small towns. In capitalist countries, it takes the price of three television sets to buy a square meter of housing, but in China the price of one television set to buy 10 square meters of housing is considered expensive. This has to be a very great contradiction.

The following estimates should be made about development of the real estate industry during the 1990's:

1. Methods for the overall development of city and town housing should continue to be supported for steady improvement and overall standardization.
2. Active and deft promotion of housing system reforms to promote the development of house construction. The prevailing housing rental system is greatly out of line with construction costs and sale prices. At any given time, these are two different matters; building houses is one thing; renting houses is another. The sooner this problem is solved, the better for getting on with the construction of housing in cities and towns. Imagine, how very good it would be if reform of the housing system could be linked to the building of houses by the late 1990's.
3. In small city and town housing cooperatives, in effect, people build houses with public support, and this system has vitality. This method should be encouraged in county seat towns and in developed areas.
4. Peasant houses are paid for by the peasants themselves. Of most importance in rural construction is providing planning and design guidance, and technical guidance. Construction materials markets should be opened up, and in economically developed areas it may also be possible to use multiple development methods to solve the peasant housing problem. According to 1988 statistics, peasant families had 19.57 square meters of living space per capita, of which 16.58 square meters was used. The main problems with peasant housing are raising quality, improving function, and bettering the living environment.

Housing system reform is needed mostly in cities and towns. In both reforming the housing system and developing the real estate industry, an overall plan for reform is needed. Economic laws have to be studied in order ultimately to attain a benign cycle. For the real estate industry, of first importance is increasing the amount of housing built, and second is improving quality. Even if

the quantity problem is solved, old houses will still have to be renovated somewhat to keep up with the times.

### III. Future Steady Improvement of the Economic Environment and Restructuring of the Economic Order To Bring Steady Perfection of a New Order in the Construction Market

Reform of capital construction and the construction industry during the 1980's gave impetus to the competitive bidding contract system. This system first began with construction on a large scale in Shenzhen, and later spread throughout the country. Marked results were obtained from the competitive bidding contracting system. Project construction costs declined, and the competitive sense of construction enterprises increased, thereby promoting a change in the enterprise operating mechanism. Nevertheless, because there was no attendant control of the system for calling for bids and letting contracts, numerous problems occurred because neither those letting contracts nor those contracting responded properly. There was a feeling in construction enterprises of first, "pressure"; second, "squeeze"; and third, "payment delays." Profits generally declined. The so-called pressure was pressure on the comparative-bid price to the point where some contractors had to enter bids verging on loss. The squeeze meant squeezing the construction schedule, including pushing off on the contractor responsibility for work delays for which the investor was properly responsible; and the payment delay meant delay in making project payments when a final project accounting was made. Not only did this mean a shortage of working capital for contractors, but they also had to continue to carry the interest on loans. In the process of competitive bid contracting, some bribery also occurred in violation of the law. At the end of the 1980's, the CPC adopted the policy of improving the economic environment and restructuring the economic order, and of punishing corruption. The Ministry of Construction drew up concrete measures regarding restructuring of the construction market. The Ministry of Construction is used in the sense of the construction system. I prefer to use the term construction market, since this is a common international concept. During improvement of the economic environment and restructuring of the economic order, the Ministry of Construction proposed a weeding out of the construction corps, the restructuring of corporations, and an examination of the credentials of architectural and construction enterprises. Problems in the construction market had aroused concern on the part of departments in charge of construction and of people in various walks of life. No doubt, this will produce a profound effect on perfecting a new order in the construction market during the 1990's.

Forecasts call for the following changes in the construction market order during the 1990's:

1. Architecture and construction enterprises will enter the construction market on the basis of their credentials, contracting architectural and construction tasks as the

level of their credentials permits. Construction enterprises will advance in grade on the basis of their past performance and achievements. This should effectively prevent enterprises from claiming to be more competent than they really are, for a steady improvement in project quality. Quality and reputation will be the main requirements for enterprise survival and development.

2. The CPC took a series of actions to punish corruption, and it issued clear-cut directions about professional ethics and the correction of unhealthy tendencies. No doubt the political consciousness of both investors and contractors will improve, and they will tailor their behavior to adhere to the four basic principles and to persevere in reform and opening to the outside world. This will shape an advantageous objective climate for future competitive bid contracts.

3. Tightening up on enterprise arrears in paying for projects will ease the problem and bring about normal payments. The problem of project payment arrears began a fairly long time ago in the construction industry and developed into a "triangular debt" problem among enterprises. This is a problem in need of general solution throughout the national economy. The State Council is extremely cognizant of this problem, and solution to it is in prospect.

4. The competitive bidding contract system will get better and better, and the provisions and detailed rules and regulations pertaining to it will improve. The actions of investors, architects, and contractors will be controlled by regulations, and, in order to prevent possible abuses, there will be new readjustments of some economic policies to ensure the smooth operation of the competitive bid contract system.

Improving the competitive bid contract system is a process, and it is a gradual process in which there are legal, system, and policy support problems as well as perceptual problems. Conflicts objectively exist between the party of the first part and the party of the second part, and we have to use Marxist methods to analyze and deal correctly with these conflicts in order to stir the enthusiasm of all quarters and to do well in building socialism on the basis of individual responsibility. The competitive bid contract system is a method in common use throughout the world. Before liberation, China also used this method, and now that a socialist planned commodity economy exists, this is once again a new topic. The construction market is a special market that is not perceived as directly as buying goods in commodity markets. Doing a good job in building projects requires, first of all, determining what functions investors are to perform, and what functions architects and builders are to perform. There must be a well-defined responsibility system that ensures smooth performance in the building of projects in order to both guarantee final quality and to shorten construction time and conserve investment.

Historically, officially sponsored construction during the slave society and feudal society periods relied on artisans. In feudal society, planning, designing, and work supervision were performed under supervision of generals. This system was supplanted by the commodity exchange form in capitalist society, but the division of labor remains in the original vein. Architects serve as consultants to proprietors, and they superintend projects on behalf of the proprietors, selling their skills and collecting fees for their technical services. However, it is those who contract the construction who are the creators of the final construction product; thus, the form of contracting with proprietor (including project general contracting, and contracting in various forms) defines the commodity buying and selling relationship. I feel that the formulation by which architectural units do general contracting of projects is unsatisfactory. General contracting only defines general project contracting in an administrative sense; it remains a form in which technical services are provided to proprietors. Superintending is a function of architectural work and should not be separated from designing as a part of a separate system. Superintending is a right that proprietors exercise through inspections of construction projects in construction market dealings. It is a right that general contractors exercise over subcontractors. Architects are responsible mostly for ensuring that construction projects are designed scientifically, that they incorporate advanced techniques, and that they give expression to architectural esthetics. Architects are also responsible for competitive bid documents. They supervise projects during their construction. We should encourage such a change in functions. In reforming construction enterprises, we should urge the method of general contracting of projects.

Quality, construction time, and price are the three economic factors that are linked in the construction market. Price should reflect a certain quality and construction period, and the lower the better. Investors must have well-defined quality concepts, and the most important function that architectural units perform in providing supervision is to inspect quality. Contractors also have responsibility for supervising subcontractors. The organizational system for ensuring quality and the complete quality control that construction enterprises practice are linked to the carrying forward of the spirit of the proletariat in being masters in its own house. This is also a feature of project building in socialist countries.

#### **IV. Greater Flexibility of Operating Mechanisms in Architecture and Construction Enterprises; More Improvement of Enterprise Quality**

The competitive-bid contract system was promoted during the last half of the 1980's. In order to be competitive, as well as for the sake of enterprises' administrative and technical progress, construction enterprises urged the study of experiences gained at Lubuge(?). They instituted project management methods, and instituted a separation between the administrative level and the work level in the pioneering of the field of multiple forms



of operation in mostly a single industry. These reform measures played an important role in improving the level of administration and management in construction enterprises.

Consequently, the trend in construction enterprises during the 1990's will be as follows: 1) Greater adaptability. There will be changes with regard to the rise and fall of enterprise investment in fixed assets, to readjustments in the spread of investment particulars and to the industrial structure, and to imbalances between one region and another, all of which will be able to change as project construction particulars change. 2) The separation and linkage between the administrative level and the work level within enterprises for specific tasks will be organized more scientifically. 3) The organizational structure of the industrial and agricultural alliance corps will be more rational, and continuity in the labor base will further improve the proficiency of the work force. 4) Development of economic diversification will give enterprises greater vitality and competitiveness in operation. 5) Better ideological and political work and training of skilled personnel will bring about an overall improvement in the political, technical, and managerial quality of enterprises. 6) New advances will be made in the form of group enterprises and entrepreneurial groups to meet the needs of competition, and for a readjustment of enterprise returns.

Construction enterprises, building enterprises, and the former so-called contract business, construction business, and contract construction business concepts (which are also concepts in common use throughout the world) are all the same concept. The organizational structure of construction enterprises has multiple levels. There are large enterprises having 100,000 or 200,000 personnel, tens of thousands of personnel, or several thousand personnel, and there are also small enterprises with 80 to 100 personnel, which must be further explained in terms of the trend of enterprise development. A review of events prior to the 1970's shows that, when a large construction enterprise contracted a job, it usually was an engineering bureau, an engineering corporation, or several companies that acted, and it had to "be active in using contacts, be tenacious, and make a big show." Very great changes occurred in this situation during the 1980's. The experiences of large construction enterprises in separating their administrative and work levels should be encouraged; knowledge intensiveness should be used in administering labor-intensive enterprises. This separation should also make clear the following concepts: 1) The separation of the administrative and labor levels applies to large construction enterprises and not to small enterprises that subcontract to supply labor for special projects or complete plants. 2) This separation should be carried out as actual circumstances change in view of the organizational structure shaped over the years in construction enterprises, and such a direction of change should be affirmed. However, problems in making the change should be properly resolved. 3) Even when separated, large construction enterprises should have their

own key cadre corps and attached forces. The separation of the administrative and labor levels does not rule out enterprises' training their own key cadre force that can be shifted about. 4) Reform of the system for applying labor during the past several years has been successful. State-owned, collective, and rural construction teams should continue to work in partnership. The main role of rural construction teams is to provide workers for projects or to provide labor en masse. They should be responsible for project tasks only as their qualifications permit.

The problem of organizing construction by project task. The organization of construction by project tasks is a characteristic of construction industry production. Project task managers must maintain continuity on the job. Only after a project task has been completed and turned over for use may they make new personnel transfers. In project construction, when work on different portions and different particulars is fluid, unless there is a team in control to exercise steady responsibility, it will be very difficult to guarantee the construction period and quality. Why was it that during the 1950's, 1960's, and 1970's construction was not organized task by task? At that time, when each individual task was done as a single unit project, the problem was not so pressing. Furthermore, administrative organization personnel in charge frequently did the work of the project manager. With regard to project methods, China has its specific circumstances, one of which is logistical support, including responsibility for the livelihood of staff members and workers. Another is organization of a party and government work group responsible for relations in all regards and organization of all parties to ensure project construction.

The matter of studying the Lubuge experiences. Japan's great success in contracting the Lubuge project was actually attributable to the use of customary Western methods. It was the project general manager responsibility system, the general contracting and subcontracting system, and the A and B parties responsibility system based on contracts. In studying the Lubuge experiences, one should look at this matter in a broad sense. Numerous large construction enterprises in China have gone into the foreign construction market, and we have gradually become well-versed in Western countries' construction market transactions, competitive bidding and organization of construction, and construction methods. China also has numerous joint-venture projects, and construction on all of these joint-venture projects is organized in accordance with customary international practice. The reforms China has conducted in recent years have also stemmed from study of the experiences of Western countries, and we have steadily summarized our own practical experiences as well. Study of the Lubuge experiences requires even more a summarization of joint Chinese and foreign traders construction, and further study of the contracting mechanism in China's construction industry, and the operating mechanism in construction enterprises.

#### **V. Continued Improvement in the Level of Industrialization of Construction and Modernization of Administration for Continuous Rise in the Labor Productivity Rate**

Smashing advances were made in construction techniques during the 1980's. At the end of the 1970's, we were still observing and studying construction techniques used in Western construction of skyscrapers, but during the 1980's construction techniques for skyscrapers had already become a cinch. The design and construction of many many buildings built in the new cities and new development zones as a result of the opening to the outside world must be acknowledged as meeting international standards. Likewise the construction work undertaken, the construction techniques used, and construction management methods employed in international construction market competition were also up to international standards.

In such a large country as China, the 1980's was also a decade of burgeoning development of the construction corps, but the quality of the construction corps was uneven. The low level of industrialization of construction, and the poor quality of building projects remained a serious problem. The level of specialization of building materials, products, and of construction members and assemblies was very low. Mixed concrete was available for only five percent of construction in the country (versus between 60 and 80 percent in developed countries). A nationwide random sampling conducted in 1988 showed only 50 percent of housing construction projects as meeting quality standards. The labor productivity rate in construction enterprises was fairly low, the per capita area of completed work being only one-fifth that of the United States and Japan. Large amounts of energy were consumed in construction, safety techniques remained relatively backward, and accidents were fairly frequent. While developing construction techniques, we should also clearly see our shortcomings.

During the 1990's, we must continue to work hard at industrializing construction, improving construction project quality, improving the labor productivity rate, advancing overall progress in construction techniques, and in making enterprises' operating decisions scientific. We must energetically train scientific and technical talent, use advanced techniques and advanced administration methods to get a large part of the construction market. During the 1990's we must spur advances in the following several ways.

Study and promote, as conditions in different regions permit, all high-performance, low-cost industrialized construction systems and construction methods; perfect coordination of construction standardization modules; and improve the degree of interchangeable use and serialization of structural members for all systems. Use standardization as a basis for diversification in the industrialization of the construction system. Further perfect construction techniques as the industrialized system permits, further perfecting construction techniques and developing complete construction techniques

including large column networks, large interior open spaces, and multifunction construction to provide society with varied and different quality construction products. By the end of the century, the construction system in cities should be 60 percent industrialized, and the per capita area completed by large and medium-sized construction enterprises should be 40 square meters.

Associated development of new construction machinery and equipment in energetic improvement of product quality. Large or technical construction machines and equipment should be imported, absorbed, and combined with Chinese technology to produce a new technology made in China. The industrialization and mechanization of multiple projects should be improved, with the associated development of commodity cement-mixing machines and on-site construction machines of different sizes and models. Once construction equipment meets needs, new advances should be made in the development of sanitary equipment, kitchen equipment, and heating equipment, in product quality, and in the degree of serialization.

Modern administration theory and methods will further attract serious attention. Application of systems engineering, networking techniques, profit and loss break-even analysis, and complete quality-control theories and methods, enterprise management by objective, plan management, economic management, and product quality control will see new improvement. Scientific techniques for defining quality, construction periods, safety, and the lowering of consumption will be ensured.

Advances will continue in the conservation of energy and the lowering of energy consumption in construction. Enclosures having good warmth retention and heat insulation properties, windows, doors, and appurtenances that seal tightly, and technologies and equipment that supply heat and conserve energy will gradually spread as construction materials industries develop.

(Note: This section quotes largely some of what was written about the construction industry from 1990 to 2000 in *Intermediate and Long-term Science and Technology Development Program*.)

#### **VI. Construction Esthetics Will Further Attract the Attention of People in All Walks of Life; This Is an Unstoppable Historical Trend**

During the late 1970's and early 1980's, everyone had numerous criticisms of the sameness of the architecture in China. Very many changes were made during the 1980's. Construction was done according to plans, concern was shown for eye appeal in the lay out of structures; concern was shown for the eye appeal of individual forms; attention was paid to the greening of cities and small areas and to the placement of small accoutrements, and attention was given to wall sculpture and statuary in main avenues, which was a very great advance. During the 1980's we built quite a few cooperative projects and quite a few joint-venture hotels. At the same time, we also imported Western construction esthetics. Many

office buildings, halls, and public accommodations were built. Now, cutbacks and controls will have to be carried out. From the construction standpoint, however, their building advanced construction technology, improved architectural esthetics, and caused serious attention to be given to the internal and external decoration of buildings. Thus, we learned many things. Complete functional convenience and an attractive internal and external environment of buildings are also things that our socialist country should pursue. We should apply the materialist view of history to the analysis of China's building esthetics. While fully absorbing the strengths of Western building esthetics, we should also be sure to propagate the building esthetics of our own people.

## COMMERCE

### Market Changes in Shanghai

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[Text] 1. Over 10 years of reform and opening to the outside world have caused intensive changes in the economic operational mechanism and the procedure of the national economy. Changes in the market, particularly the consumer goods market, have become important factors influencing and leading to changes in the general body of the national economy. This was prominently manifested in the dramatic changes in the consumer goods market in 1989 and made the situation of the whole national economy display unprecedented special characteristics. How do changes in the consumer goods market lead to drastic changes in the situation of the national economy? What are the reasons for and causes of changes in the consumer goods market? What are the trend and direction of the changes? And how to make selections facing the enormous changes in the consumer goods market are all big and important problems which currently we cannot disregard. This report will be based on the changes in Shanghai's consumer goods market and make a deep-going investigation and study of the relations between changes in the consumer goods market and the operations of the general body of the national economy.

### 1. Changes in the Consumer Goods Market Are an Important Variable in the General Body Operations of the National Economy

2. From a deep-going and clear analysis of the operational mechanism of the national economy, it is found that movements in the industrial consumer goods market are important external reflections of changes in the operational mechanism of the national economy and the receipts procedure. Conversely, changes and movements in the consumer goods market can also produce important effects on the general body operations of the national economy. In particular, accompanying the reform and advancement of the direction of marketization and changes in the mechanism of the national economy, the pivotal point in the evolution of the process of the national economy will shift from taking accumulation as the guiding center to consumption as the guiding center, the operational process of the national economy and evolution in the mechanism will all the more be affected, pulled and attracted by market consumption demands, and movements in the consumer goods market will be the vanguard in the movements of the entire national economy. Also, in particular, the sudden overheating or drastic depression of the market of the consumer goods industry will become exceedingly important variables affecting short-term changes in and the long-term development of the national economy. We can see this point from the relationship of the changes of principal macroeconomic targets and the various economic coefficients in the operations of the national economy.

3. From examining the macroeconomic targets and making an analysis of the trend shown in historical materials on the changes in Shanghai's consumer goods market and in the industrial gross output value, it can be seen that there is a relationship between changes in the industrial consumer goods market and the growth speed of the industrial gross output value. From 1957 to 1979, the scale of the changes in the growth speed of Shanghai's industrial gross output value was larger than the scale of changes in the increase in the gross volume of social retail sales of commodities. From the viewpoint of time, when gross industrial output value increases, the gross volume of retail sales of social commodities enters a period of increase; conversely, the reverse is true. However, changes in the gross volume of retail sales of social commodities lag behind the movements in the industrial gross output value; when the growth speed of the industrial gross output value reaches a peak and is on the downturn, the gross volume of retail sales of social commodities has not reached a peak and continues to rise. After 1979, the scale of the changes in the growth of the gross volume of retail sales of social commodities was larger than the scale of movement in the increase of the social gross output value, and changes in the gross volume of retail sales of social commodities become an even more active and lively element. Seen from the time angle, the changes in the gross volume of retail sales of social commodities keep close pace with the changes in the industrial gross output value.



4. Changes in the consumer goods market and fluctuations in national income also have corresponding relations. From 1952, the curve line of the tendency of the gross volume of retail sales of consumer goods in Shanghai displayed a special feature of periodical movement, while, corresponding to this, the curve line showing the trend of increases in national income was more or less similar. But before 1979, the degree of the changes in the increase of retail sales volume of social consumer goods in Shanghai was much smaller than the extent of the fluctuations in the increase of the national income, and the time span of the periodicity in fluctuations of circulation of consumer goods was slightly larger than the time span of the periodical fluctuations of the national income; at the same time its expansion or retraction was one to two years behind the expansion or contraction of a fluctuating nature of the national income, but the peaks and troughs of the fluctuations lagged behind. The enormous fluctuations of the national income and the relatively stable fluctuations in the growth of the gross volume of retail sales of social consumer goods illustrated that the relationship between the two was not too apparent and that changes in the consumer goods market did not have large effects on the general body operations of the national economy. But after 1979, the extent of the fluctuations in the consumer goods market showed an expanding trend compared with before, its expansion speed or contraction speed suddenly increased, and fluctuations in the consumer goods market were much closer to the track and extent of changes in the national income, and were even ahead of the fluctuations of the national income. Since 1979, changes in the consumer goods market have taken the lead in movements and changes in the national economy and their relation to the operations of the national economy has greatly increased.

5. Whether or not there exist reciprocal relations between the economic variables of prices of consumer goods, national income, and residents' savings is an important revelation of whether or not changes in the consumer goods market can lead to macroeconomic changes. Actual analysis has shown that since 1979 the mechanism of reciprocal liaison between the above-mentioned economic variables had gradually been generated and developed.

A. Seen from the relations between price changes and changes in wage income and in market, the liaison mechanism between income—demand—prices has been formed. Before 1979 (starting point 1956), the degree of relationship between changes in the general level of retail sales prices of social consumer goods and changes in the gross volume of salaries and wages of staff members and workers was extremely low, and between the two the state of relationship was zero. Increases in the gross volume of salaries and wages of staff members and workers did not, through increases in purchases of consumer goods by the staff members and workers, cause a rise in the prices of consumer goods, while reductions in the gross volume of salaries and wages of staff members

and workers also did not, through reductions in the demand for consumer goods on the part of the staff members and workers, cause a fall in the prices of consumer goods. After 1979, the general level of retail sales of social consumer goods and changes in the general level of salaries and wages of staff members and workers clearly showed a related quality. At the same time, the lowest points in the fluctuations of the two speedily rose and a state of negative increase never appeared. This showed that before 1979 changes in the social consumer goods market had not been determined by the income level of the market's main body of demand and that changes in the demand with ability to pay had affected neither prices nor supply, and that in fact the supply of social consumer goods and their prices had nearly all been controlled and regulated by the state plan. On the other hand, subsequent to 1979, accompanying the introduction of market mechanism, the effects of changes in the increase of salaries and wages of staff members and workers, in the income at the disposal of residents, and in the effective demand with ability to pay derived therefrom, were growing increasingly clear in the changes in price and supply in the consumer goods market. The liaison mechanism between income, demand, supply, and prices was thus gradually formed.

B. Strengthening of the unison and liaison between market prices of consumer goods and residents' income, residents' savings, and residents' consumption. Before 1979, prices of consumer goods in China had been basically frozen for a prolonged period, and changes in residents' income, savings, and consumption had had no connection with price factors. Changes in residents' savings had principally been determined by changes in residents' income and in their consumption. Changes in the yearend balances of savings deposit accounts in cities and towns had changed following changes in residents' income and in the gross volume of retail sales of social commodities. This illustrated that between the variables of residents' savings and residents' income and changes in the consumer goods market no functional relationship had existed.

After 1979, conditions were changed. The degree of unison and liaison between changes in the consumer goods market and residents' savings and consumption was vastly increased. A rise in the prices of consumer goods in the market frequently accompanied and followed a drop in the gross volume of residents' savings. When residents' income increased, a rise in the market prices of consumer goods would accompany an increase in the gross volume of retail sales of social commodities. Conversely, when residents' income did not change, or slowed in growth rate, it would accompany a fall in the gross volume of retail sales of social commodities. When the retail sales price index of social commodities dropped, the situation would be reversed. For example, from 1985 to 1986, the scale of the fall in the retail sales price index was 10 percent; but despite that, in the same period residents' income dropped by nearly 25 percent, and savings grew by four percent. From 1988 to 1989,

the scale of the fall in the price index was four percent, yet despite the fall of nearly 10 percent in income, savings increased by over 15 percent. Obviously, when prices fall, although residents' income may fall, residents' savings may rise. The larger the fall in commodity prices, the greater will be the savings rate of residents. Changes in commodity price indices and changes in the gross volume of retail sales of social commodities (more or less equivalent to residents' consumption) are directly related, and the scale of the rise or fall of the latter is higher than that of the former. According to our own research, beginning from 1984 when commodity prices rose by one percent, the increase in the gross volume of retail sales of social commodities would be two percent, and when commodity prices dropped by one percent, the gross volume of retail sales of social commodities fell by about 1.5 percent.

6. According to the above analysis, before 1979, practically no unison or liaison existed between market prices of consumer goods, changes in the consumer goods market, and other economic variables (such as industrial gross output value, residents' income, residents' savings, and so forth) in the operation of the national economy. After 1979, a pattern of unison and liaison began to appear between the prices, supply and demand in the consumer goods market, and the various economic variables in the operations of the national economy, signifying a change in the operational mechanism of the national economy; that is, the market mechanism gradually became an innate constituent part of the macroeconomic mechanism, the different economic variable of economic operation managed to pass through this level and channel of the market mechanism to be mutually connected and affected, at the same time state planning also began to take note of the market trend and to make use of the market mechanism, and the economic variables regulated by the state and the economic variables regulated by the market mechanism began their mutual functioning.

## II. Changes in the Consumer Goods Market: A Historical and Realistic Survey

7. Strengthening the unison and liaison of changes in the consumer goods market with the general body operations of the national economy denotes that changes in the consumer goods market have become the vanguard of changes in national economy operation. But to what extent are their individual operations restricted by general body operations of the national economy and what is the course of their changes, their mechanism, regulations and direction—it seems that clarifying these problems is the key factor to solving the major economic problems and grasping the direction of the macroeconomic operations from now on.

8. A statistical analysis of this historical change in the gross volume of retail sales of social commodities in Shanghai has shown that changes in the circulation of consumer goods in Shanghai formed a periodically fluctuating stature. In the 38 years from 1951 to 1989, the

gross volume of retail sales of social commodities went through 10 periodical fluctuations, they are as follows: 1951-1953, 1953-1956, 1956-1959, 1959-1967, 1967-1969, 1969-1972, 1972-1979, 1979-1985, 1985-1988; and after 1988. Seen from the individual features of these 10 periodical fluctuations, they may generally be divided into three stages. The first stage consisted of two periods prior to 1956, the special features of which were the rather large scale of fluctuation. In the 1951-1953 period, the highest point was 40 percent and the lowest point was a negative eight percent, the drop or extent of disparity being 48 percent. In the period from 1953 to 1956, seen from the extent of the fall, the highest point was 40 percent and the lowest point was a negative eight percent, a disparity of 48 percent. Seen from the view of an increase, the highest point was 13 percent and the lowest point was a negative eight percent, a disparity of 21 percent. The duration of fluctuations was two to three years. The second stage was from 1956 to 1979. In this stage there were five fluctuation periods. From these, the period from 1959 to 1967 had the largest degree of fluctuation, the highest point was seven percent and the lowest point was a negative nine percent, a disparity of 16 percent. Seen from the duration or length of fluctuations, here the duration or length of the various periods was extremely irregular. The longest two periods were respectively eight years (1959-1967) and seven years (1972-1979). The shortest lasted for two years (1967-1969). The average length or duration of the periods was 4.6 years. In the second stage, the extent of the fluctuations during the periods far exceeded the first stage. The third stage was from 1979 to the present. This stage passed through three fluctuating periods. The period starting from 1988 is a falling one and has not yet ended, in the period from 1979 to 1985, the highest point was 38 percent, the lowest point was 2.5 percent and the disparity was 35.5 percent. (The above was computed according to the fluctuations on the rising side and if computation was made according to the fluctuations on the falling side then the highest point and lowest point were respectively 24 percent and 2.5 percent and the disparity was 21.5 percent.) In the period from 1985 to 1988, the highest point was 32.5 percent, the lowest point was 13 percent, and the drop or disparity was 19.5 percent. (The above was computed according to the fluctuations on the rising side, and if computed according to fluctuations on the falling side then the points were respectively 38 percent and 13 percent, the disparity being 25 percent.) The durations of the two periods were six and three years, with an average duration of four years. In comparison with the first and second stages, the extent of the fluctuation in the period was far smaller than in the first stage but far larger than in the second stage and the average length of the period was one and a half year's longer than in the first stage and one half year shorter than the second stage. All this demonstrated that since 1979, compared with before, the consumer goods market has been extremely lively and orderly. From the curved line of fluctuations of the gross volume of retail sales of social consumer goods in

Shanghai, we can also detect another special characteristic of fluctuations in the consumer goods market since 1979. Since 1979, the lowest point of the periodical fluctuations in the consumer goods market was far higher than before 1979 and has been steadily rising following the passing of time, whereas in the two stages prior to this, the lowest point of the fluctuations of the periods showed negative growth, and basically fell to a similar low level. This illustrates that since 1979, the periodical fluctuations in the consumer goods market have shaken off the pattern of low-level "classical cycle" of the two periods and entered the rising pattern of "cycle growth."

9. The basic cause for the special feature of the periodical fluctuations of the consumer goods market being different from before lies in that accompanying the progress of the reform of the direction of marketization, the circulation and demand-supply mechanism of consumer goods has speedily been separated from the original nonmarket mechanism of the centralized policymaking of the central authorities and has entered a step earlier in the track of market movements. Concurrently, the operational mechanism of the entire national economy has entered the coordinated structure of the double-mechanism of market and planning and the supply, demand and prices in the consumer goods market have been connected with the unison and liaison mechanism of the various economic variables in the national economy.

10. The demand factor frequently acts on the principal side of effecting and influencing market changes. Since 1979, in the principal body of demand, changes in demand with the ability to pay (capability of disposal of income) and changes in the acts of demand's principal body which tended to the good side have been important causes of influencing the new form of fluctuations in the consumer goods market.

A. Before 1979, with regard to residents who served as the principal body commanding demand in the consumer goods market, their income fluctuated for a long time on a low level and residents' consumption was actually segregated from the range of industrialization. Simultaneously, changes in the gross volume of retail sales of social commodities stayed for a long time within the orbit of a low level. The reform has enabled the residents' income and the residents' ability and power to make free selections in consumption to rise and expand rapidly. From 1979 to 1984, the average annual increase in the income of Shanghai residents was 27.1 percent while the average annual increase in the gross volume of retail sales of social commodities was 19.5 percent. Hence, the rapid rise in the level of residents' income since 1979 was an important factor in attracting and pushing the changes in the consumer goods market to shift from the low level "classical cycle" period and enter the rising period of "cycling growth."

B. Following the rapid rise in the income level, the core of the direction of the residents' demand has also been

shifted. In the initial period of increase in residents' income that departed from the low-level hesitancy, the core of the direction of the residents' demand was based on the traditional daily necessities and the rapid increase in the gross volume of retail sales of social commodities was pulled principally by the rapid increase in the sales of daily necessities. Because the flexibility of the demand for necessities is relatively low, at a time of a rise in the residents' income, the speed of the rise in the gross volume of the retail sales of social commodities is slower than that of the rise in income. When the residents' income falls, the speed of the fall in the gross volume of retail sales of social commodities is slower than the speed of the fall in income. The first half portion of the periodic fluctuations in the consumer goods market from 1979 to 1985 was like this. After the rapid increase in the residents' income had been sustained for a stated period, the core of the direction of the residents' demand began to shift from necessities to non-necessities. At such a time, the rapid increase in the gross volume of retail sales of social commodities principally depends on the pulling and pushing caused by the rapid increase in the sales of non-necessities. Due to the flexibility of demand for non-necessities being rather large (of which the demand flexibility for residences and durable consumer goods stays at above three). Hence when the income of residents rises, the speed of the rise in the gross volume of retail sales of social commodities influenced by the pulling and pushing of non-necessities keeps pace with, or is faster than, the speed of the rise in income; and when the residents' income turns downward, the speed of the drop in the gross volume of retail sales of social commodities keeps pace with or is faster than the speed of the drop in income. Exactly the same situation was found in 1984 in Shanghai in the relations between the sharp increase in the residents' income and the sharp drop in the residents' income in 1985—with the changes in the gross volume of retail sales of social commodities. When it is considered that a drop in savings is the reverse condition of residents' current disposal income, hence despite the growth rate of the current year's income being slower than the consumption growth rate, if the drop in the volume of savings is relatively faster than the situation of the movements in the growth rate of residents' income and changes in the gross volume of retail sales of social commodities will still be the same as above. The situation in 1987 and 1988 in Shanghai clearly testified to this.

11. Supply is the reverse side of market demand. The conduct mechanism of the suppliers determines the reflection of the suppliers vis-a-vis market demand and hence is another important factor influencing market changes. Before 1979, the factories and merchants, in their capacity as the main body of market supply of consumer goods, suffered from the state's administrative direct control. The variety, specifications and quantity in the production of consumer goods were specified by state plan and had no connection whatever with the capacity to pay, to demand as well as the structure of the residents' consumption. As a result of the state was



principally concerned with the industrialization process itself, and paid little attention to the process of the residents' consumption, for a long time the supply of consumer goods stayed in a tense state of orbiting around a very low level. Since 1979, the state gradually released the direct planned control over the production of consumer goods on the part of the plants and merchants. Suppliers of consumer goods then began to follow the demand signals of the residents to autonomously depress or expand production. However, seen from the side of readjustment of the gross volume, expansion of supply of China's consumer goods industries never seemed to have been able to catch up with the expansion in demand, whereas reduction in supply seems to have been frequently slower than the depression in demand. From 1984 to 1987, expansion of demand put the production and supply of consumer goods in a very tense state. Despite the production operations being in full gear in various localities, regarding the expansion of demand, supply seemed to have found it difficult to follow. Since the fourth quarter of 1988, demand began to fall off, and particularly since May 1989 the demand for consumer goods rapidly dropped, but the shrinkage in supply was far slower than that in demand. As a result, many enterprises which had been stimulated by the "rising signs of prosperity" were caught off their feet. There was no way to call a sudden halt to customary supply and there was a serious state of goods stockpiling. Seen from the side of structural readjustment, changes in the basic structure of supply of consumer goods and in product structure shown in variety, quality, and functions have been rather slow, while structural changes in ordinary industrial goods and high-grade consumer goods have been rather rapid.

12. Price is the product of the union of market demand and supply and is also the equalizer to regulate and balance supply and demand. Prior to 1979, market prices of consumer goods were under the direct planned control of the state. This price-forming mechanism determined that basically there could be no direct connection between the market prices of consumer goods and market supply and demand. When residents' income rose or fell and market demand expanded or shrank, the state would seek and realize short-term balancing of supply and demand through regulating the increase or decrease in the production volume (changes in supply volume), and not resort to price changes. This was the case in 1953-1959 and 1970-1978. When a serious imbalance occurred in the economic structure and gross volumes, and quantitative readjustment under fixed prices could no longer realize a compulsory balance, the state would directly control price changes to assist in realization of a short-term balance. For example, in 1960 to 1964, price changes were purely for the purpose of realizing short-term targets and compulsorily restraining demand, and not promoting supply and promoting a long-term balance in supply and demand. Under neither of the conditions could prices automatically perform the function of continuously regulating the changes in the two sides of supply and demand. Hence, before 1979, the

consumer goods market displayed an irregular state of orbiting at a low level. From 1979, the state gradually effected decontrol of the market prices of consumer goods, and prices in the consumer goods market began to be connected with the union mechanism of demand and supply. Changes in the prices of consumer goods not only regulated changes in demand but also, by means of interest stimulation, promoted the readjustment of supply. Through the mediating mechanism of price changes, meeting of the demand for consumer goods and supply of consumer goods became regular and continuous and the gross volume and structure of supply began to follow the changes in the gross volume and structure of demand for readjustment. Hence, since 1979, the periodical fluctuation in the consumer goods market showed an unprecedented and relatively regularized rising quality of the "growth cycle" type.

13. Seen from the main body of demand for consumer goods in China, a peculiar phenomenon appears, which is that plants and merchants are not only suppliers but also purchasers, wielding a great influence on the supply of consumer goods; and, in addition, government organs are also purchasers who cannot be overlooked. Differing from the case of residents acting as the main purchasing body, purchases made by enterprise and business units and administrative organs to meet the demand of the staff members and workers of their respective units are under rather soft budget restrictions, involve large quantities, and display the trend of unclear direction of purchase and slight regard for the prices paid. Hence, this can easily cause pressure on market demand and scarcity in supply. In the event of a fall in the purchasing power of enterprises and government organs, a sudden weakness and depression in the market may also appear.

14. Since 1979, the special connection between changes in the supply and demand for investment goods in China and changes in the supply and demand for consumer goods has exerted an important influence on the course of changes in the new consumer goods market. Seen from the process of the changes in the supply and demand for investment goods and the changes in the supply and demand for consumer goods, expansion in the gross volume of supply of investment goods in the initial stage was slower than the expansion in the supply of consumer goods, but subsequently rose rapidly, with its expansion speed greatly exceeding the expansion in the supply of consumer goods, all the way until the critical point reached in the conflict in the economy between overbrisk investment and consumption demand and the bottleneck in resources. Then the gross volume of supply of investment goods shrank, and in the initial stage, the shrinkage was slower than the shrinkage in the supply of consumer goods. After this had continued to a certain point, the shrinkage in investment goods became faster than that in the supply of consumer goods, until the lowest point in the fall of the economy. Seen from the angle of structure, the supply structure of investment goods was relatively coordinated at the initial stage of the rise in the economy, in particular the bottleneck

departments in the structure were relatively few and the extent of shortage was not large; once the economy entered the rapidly rising stage, the bottleneck departments in the supply structure of investment goods increased and the bottleneck became narrower. From this it can be seen that the speed of growth in the supply of investment goods and the imbalance in supply structure are correlated and the expansion in the gross volume of supply of investment goods and the expansion in the supply of consumer goods are correlated. Similarly, imbalance in the supply structure of investment goods is correlated with expansion in the gross volume of the supply of consumer goods and changes in structure.

15. Government development strategy and macroeconomic policy also exercise an important influence on changes in the consumer goods market. Before 1979, the low-level cycle of the periodicity in the consumer goods market basically speaking was related to the government's development strategy of unitary industrialization. After 1979, the target of China's economic development shifted from industrialization itself to elevation of the level of welfare of the people. We began to readjust the national economic structure by taking development of consumer goods production as the pivotal center; heavy industry gradually extricated itself from its own orbit and production of consumer goods made rapid development. Simultaneously, the state's macroeconomic policy was greatly readjusted and changed. All this facilitated, on the supply side, the great development of the consumer goods industries, and also, from the demand side, provided the conditions for development and expansion. Since 1979, China's economic development has all along proceeded along the lines of giving priority development to the consumer goods industry. The readjustment in 1981-1982 was aimed at depressing the investment goods department and increasing supplies to the consumer goods department. The retrenchment and readjustment in 1985 on the one hand depressed production of investment goods and construction in this connection and, on the other hand, earnestly strove to maintain production of consumer goods. Since then the demand for consumer goods has all along been over-brisk and governments in different localities have all devoted great efforts to expanding the production and supply of consumer goods. Up to and after the second half of 1989, and even after a phenomenon of weakening had clearly been manifested in the market demand for consumer goods, various localities felt that there were still large gaps in the supply and demand of consumer goods and continued to expand the supply of consumer goods in anticipation of the development of a new round of expansion of demand for consumer goods. It was precisely this type of development target and macroeconomic policy that attracted the appearance of a new form and course of changes in the consumer goods market.

16. The foregoing sustained study and cause-analysis of the historical process of fluctuations in the consumer goods market are the basic prerequisites for studying the present special features of the consumer goods market

and their mechanism and causes. Seen from the fluctuation curve of Shanghai's consumer goods market, since 1988, the consumer goods market has entered the falling or depression stage. However, in the summer of 1988, a crash buying spree suddenly erupted and caused an enormous rebound in the consumer goods market. While residents, plants, and merchants thought that the tension in the market would become aggravated and accordingly proceeded to react strongly, the state abruptly and decisively adopted retrenchment measures. The consumer goods market responded and dropped, causing the appearance of a state of large-scale weakness and depression seldom seen in recent years. Obviously, this state of affairs was caused by the display of the effects of the state's retrenchment and readjustment measures. Retrenchment led to tightening of the money market, a rise in interest rate, a checking and restraining of institutional purchasing power, depression of investment demand, and thereby the gradual disappearance of the false demand caused by excessive inflation. Rectification smoothed out the circulation channels, improved market order, and restricted the phenomenon of false demand and supply of a speculative nature caused by the practices of rebuying and reselling for profit. However, accompanying the reduction and slowing down of demand inflation as a result of retrenchment and rectification, as well as the disappearance of overheating and false demand, it was difficult to proceed at the same pace for readjustment of supply, and readjustment of the supply and demand structure was even more difficult to coordinate. This was because since the 1984 overheating of the economy and sustained strengthening of gross demand had attracted the distorted development of the supply structure (both long-line and short-line advanced at the same pace), and from beginning to end the supply structure of consumer goods showed a distorted and imbalanced quality at a low level [as published]. When demand was suddenly cut down, following the sharp reduction in the gross volume of false and over-brisk demand, the demand structure shifted pace, but the customary tendency of supply always lagging behind in reaction still encouraged the supply structure to continue to press forward in accordance with the demand structure when demand was over-brisk. This led to an aggravation of the discrepancy in the market supply and demand structure and to the further weakening of the sale of consumer goods in the market. Seen from the direction of the gross volume of supply and demand of the consumer goods market, at the time of the sudden drop in consumption demand it was also found that the speed of the drop in demand exceeded the speed in the drop of supply. The more sudden and severe the retrenchment and the greater the briskness in the false consumption demand before the retrenchment, the faster is the fall in demand caused by the retrenchment in comparison with the speed of the fall in supply, and the more rapid and sudden the weakness in the consumer goods market. The sudden turn toward weakness of the consumer goods market in Shanghai and in the whole country after April 1989 bore testimony to this.

17. There is little doubt that retrenchment, improvement, and rectification directly affect and are the important causes determining the current state of the market. However, retrenchment, improvement, and rectification cannot, on a larger scale, influence and change the supply and demand mechanism of the consumer goods market and the operational mechanism of the national economy. If, after the conclusion of retrenchment, improvement, and rectification, the operational mechanism should proceed as of old, then the market pattern would inevitably return to the original direction and track. Consumption demand would be over-brisk, the supply and demand structure would be imbalanced, and drastic falls in prices would again periodically appear, in an even more violent form. In order to extricate ourselves from this vicious cycle of "sharp rises and sudden and drastic falls," it is necessary to tightly grasp correction of the operational mechanism at the retrenchment, improvement, and rectification juncture. Hence, we need to find out the underlying causal mechanism behind the pattern of changes in the existing consumer goods market. This will facilitate, during the course of the improvement and rectification, improvement of the countermeasures for correction of the supply and demand mechanism of the consumer goods market and the economic operational mechanism.

### III. Poor Meshing of the Mechanism of the National Economy: Cause of Formation of Market Pattern

18. That consumption choice by residents has become the guiding factor in the operation of the national economy is a big and important accomplishment of the reform and is also an important link for our establishment of the new operational mechanism of the planned commodity economy. International experience has shown that whether in countries which have already set up a developed and perfect commodity market mechanism or in countries in transition to a developed and perfect market mechanism, a state of affairs that has universally existed is the establishment of an "autonomy of the consumer" that is, consumption choice by residents has become the vanguard or guiding factor in promoting and guiding market demand and the operation and development of the national economy. The problem lies in the fact that when consumption choice at the discretion of residents becomes the vanguard in leading and pushing the operations of the national economy, and if a country's economic operational mechanism itself as well as its development level and environment have important defects or points of insufficiency, then deviation and irregularity may be found in residents' consumption choice. At the same time, in the guiding mechanism in economic operations, there may be abrasion that may become distorted and broken up. And the combination of deviation and irregularity in residents' consumption choice with the breaking-up and distortion of the operational mechanism not only renders it impossible to push the development of the national economy to become more efficient and stable, but also, sooner or later, may lead to even greater

difficulties and contradictions in economic development. Making a deep-level examination of the operational mechanism of the national economy, it is found that the track line and special features of the changes in the gross volumes of supply and demand and structure of China's consumer goods market have been mainly determined by the following factors: 1) Changes in the distribution condition (structural and in regard to gross volume) of residents' income and changes in residents' spending habits; 2) the conduct mechanism of enterprises, that is, readjustment of enterprises' internal behavior, and their reaction mechanism to external changes; and 3) the form of macroeconomic regulation.

19. Since the reform, following changes in the income distribution mechanism and the shift and transference of the operational mechanism of the national economy, the monetary income at the disposal of residents has been extricated from the state of hesitancy at a low level under the traditional structure, and has begun to grow rapidly. As a matter of fact, the rapid increase in monetary income at the disposal of residents is not a bad thing, but the problem lies in the fact that the speed of increase of this sort of income has exceeded in a sustained manner the growth in the labor productivity rate causing a sustained increase in demand backed by residents' ability to pay against the increase in the means of consumption which society can supply; all along demand in the consumer goods market in China has been over-brisk, while supply has appeared to be in a rather strained state. At the same time, once this super-fast growth in residents' income assumes a sustained character, inevitably consumption demand will tend to the strong side, the supply of consumer goods will be strained from beginning to end, prices of consumer goods will rise drastically, and this will lead to the blind expansion of the consumer goods industries. In the initial stage of the rapid increase in residents' income and the rapid increase in consumption demand, expansion of demand is still purely on the quantitative side. Up to a certain stage, the center of the direction of demand will be shifted. At this time, while plants and merchants supplying consumer goods are still worried by insufficient supply as far as the gross volume is concerned, unexpectedly, along with the insufficiency in the gross volume of supply, a problem of a structural character suddenly becomes more prominent. In the meantime, the signs of the shift in the demand structure have been covered up by the inflation of gross volume of demand and imbalance of the gross volume of supply and demand of consumer goods caused by the sustained super-fast increase in the gross volume of residents' income, and a change of direction of purchasing and peak demand have occurred in an extremely centralized and rapid manner, whereas in the initial period the shift in the traditional structure was extremely slow. By the time readjustment of the supply structure has been fully completed, demand may again be shifted in another direction. But the more serious part of the problem is that the situation of the super-fast increase in residents' income cannot be maintained for long, and once the



inflation in income and the false consumption inflation it brings along can no longer be continued, the demand structure will suddenly return to the old form or take a new turn. In such a case, the positional errors of the existing supply pattern and the present demand pattern caused by false demand inflation will be further aggravated. The retrenchment and stringent situation in the fourth quarter of 1988 and the all-round weakness in the consumer goods market since the improvement and rectification have been, to an extremely large degree, precisely the inevitable results of the sudden checking of the sustained inflation of income for a prolonged period.

Originally, when the income distribution mechanism is shifted and the income level is raised, the state should take steps to change the traditional welfare and supply systems. However, since the reform the old welfare insurance system has continued as usual, the space for consumption choice of residents has been greatly reduced, bringing about deviation and lack of adjustment between residents' consumption and income levels. At the same time, of the rapidly increasing monetary income of residents, a sizable surplus can only turn to the market for high-grade consumer goods, creating an onslaught on that market. When China is still in the stage of the per capita national income being \$300 to \$400, the prevalent rate of and desire for purchasing high-grade consumer goods have reached the conditions of the developed countries with a per capita national income of from \$1,000 to \$1,500. This is closely related to the supply system of a welfare nature in income distribution.

In a normal economic operational structure, following the development of the commodity economy and increases in the surplus monetary income of residents, there is usually a strengthening of the investment tendency and merging of funds of a consumption nature. However, in China there basically does not exist an investment market for individuals and the greater the surplus monetary income of residents the greater the hidden threat to economic operation and the more serious will be the threat faced by the consumer goods market. This was one of the causes for the run on banks and crash buying by residents in the years 1987 and 1988. At the moment, with the bank deposits of residents amounting to some 500 billion yuan and in an environment lacking an investment market for individuals and facilities for merging funds of a consumption nature, once economic growth speeds up and commodity prices rise on a large scale, there is the possibility of the appearance once again of a rampage of crash buying on the market.

20. Problems with distortion of the enterprises' conduct mechanism and in the readjustment of market supply. Since the reform, the conduct mechanism of the enterprises in China has undergone great changes in comparison with the conduct mechanism of enterprises under the traditional structure. Readjustment of supply in enterprises has begun to unite with market demand and market changes. However, there are still great differences between this kind of supply conduct mechanism of

enterprises and the supply conduct mechanism of enterprises in a standard market mechanism. First, expansion of the gross volume of supply and structural changes in the enterprises possess an inflexible character with a downward trend. Whether in the stage of the percentage distribution of profits, or of paying tax in lieu of remittance of profits, or in the enforcement of the contract system, enterprises are universally inclined toward the sustained expansion of the volume of supply, and to overlook improvement and readjustment of the quality and variety of supply. It appears that at a time of economic expansion, enterprises attend purely to expanding the supply volume and, at a time of economic depression, to reducing the supply volume, with changes in the supply structure being extremely slow. Second, compared with the supply scale of enterprises in a standard market mechanism, the supply volume of consumer goods enterprises in China is far lower than the level in a standardized economy. Particularly in the case of certain industries and trades producing or handling high-grade durable consumer goods, textiles, and apparel which have a high degree of standardization and produce rather good results in operations of the right scale, our enterprises are comparatively seriously uneconomical in terms of scale. This leads to a large extent of low-level supply competition among the plants in consumer goods production. Third, supply readjustment in enterprises producing consumer goods in China has a weak or loose relationship with the changes in prices and input production costs of related industries and trades, but reacts strongly to changes in the prices of their products. Thus, in recent years despite the repeated increases in prices of raw materials, energy, and so forth and the continuous rise in the input production costs of enterprises in the consumer goods market, this has never led to any readjustment or reorganization of consumer goods production enterprises. Each and every consumer goods production enterprise has resorted to the measures of writing up percentage-wise the prices of its products or has sought tax reductions or ceding of interests from the local government in maintaining its existing pattern of market supply.

21. Grade-by-grade adjustment and control form in administration at various levels and division and blocking of market operation. Following the progress of reform, the form of China's macroeconomic adjustment and control has undergone enormous changes. In the adjustment and control of economic operations, the state has gradually shifted from principally direct control to principally indirect adjustment and control. Macroeconomic adjustment and control have begun to pay greater attention to market changes and to utilization of measures of the nature of market mechanism. However, in the course of the shift in the form of macroeconomic adjustment and control, we have fallen into the pit of adjustment and control in many grades in the division of power of administrative nature between the central government and the local governments. From the central government to the local government at the lowest grass-roots level, each and every government has formed a

relatively independent and unitary adjustment and control level with itself as the center. The entire adjustment and control system of the national economy is the grouping together of numerous regulatory layers at different levels and grades and with different boundary scopes. This type of adjustment and control mechanism with multiple levels and grades seriously impedes the formation of a unified market, distorts the market mechanism, and leads to disharmony between market supply and demand prices. In recent years, the many non-standardized fluctuations and disturbances among the changes in China's consumer goods market have been closely related to this.

The so-called irregular fluctuations and vibrations in the market are principally of two kinds, as follows: 1) Prices of consumer goods rise sharply and in a sustained manner and the rise even shows a tendency to accelerate; along with this, corresponding demand is speedily inflated, but supply fails to keep pace; and 2) Both supply and demand in the consumer goods market structure fluctuate and vibrate at the same pace. But both of these phenomena are closely related to the division and blocking of market under the adjustment and control by separate administrative grades at various levels. First, under the administrative grade-by-grade adjustment and control of the departments and localities, the market is partitioned into relatively closed localities, while resources and assets can hardly flow across the localities. At the same time, local governments do their utmost to protect the local enterprises engaged in the production of consumer goods. The more brisk the demand and the higher the prices, the greater is the concern of the local governments with the protection of the enterprises in this category of industries and trades. This inevitably renders it possible for the coexistence of enterprises in different localities demonstrating different production efficiency rates and different costs of production. Thus, demand expansion and prices increases have simultaneously pushed the expansion of supply by both enterprises displaying low efficiency rates and high production costs and enterprises displaying high efficiency rates and low production costs. This effectively restrains the speed of supply expansion. Meanwhile, when demand is strong, the prices are still determined by the supply prices of the worst-run enterprises with high production costs. Hence, the share in the market of suppliers with high production costs will not be reduced while the share in the market of suppliers with low production costs will be difficult to increase. The common role played by pushing both demand and production costs leads to a trend of accelerated inflation of prices of consumer goods but difficulties in following up the pace. Next, under the adjustment and control by multiple layers of administration, local governments cherish the hope of strengthening administrative mobilization, the power to allocate resources, and caring for the interests of the localities and at the same time they exercise rather large macroeconomic adjustment and control powers. As a result, it is possible for the various localities within the shortest time to speedily invest in the formation of the

capacity and power of supply. In the initial period of the changing of direction in demand, due to the lagging behind in reaction on the part of the supply structure, there is a great disparity in the supply and demand structure. The supply of products in which the direction of demand has centralized is extremely tight. Prices rise sharply. But when the localities separately invest in building the needed plants, a new round of surplus goods will be on hand. In the mechanism in which multiple layers of administrative units earmark their separate spheres of interest in adjustment and control and the localities scramble for their own interests, the various localities frequently overreact to market signals: this necessarily causes the supply and demand market to go at the same pace. A typical example of this market movement at the same pace was found in the dramatic and violent fluctuations in recent years in China's markets for durable consumer goods. Products in extreme demand yesterday are today forsaken in the stockpile list.

#### IV. Deep-Going Thoughts on Getting Out of the Market Dilemma

22. As we see it, the problem of changes in China's consumer goods market is not a simple one of short-term equalization of the gross volume of supply and demand. We cannot by means of pure and simple readjustment in policy reach the objective of long-term equilibrium and orderly progress of the consumer goods market. This is because the current situation of the consumer goods market is the result of many years of contradictions accumulated in the national economy and has its source in deep-seated impediments in the operational mechanism of the national economy. Naturally, the current weak situation in the consumer goods market is directly related to the macroeconomic retrenchment, improvement, and rectification since the fourth quarter of 1988. Accompanying the loosening of the retrenchment policy and the passing of the bottom stage of market periodicity, the consumer goods market has risen anew and become active. However, whether or not a drastic rise in prices in the consumer goods market and a mad scramble in crash buying will appear soon again, or the appearance of serious contradictions in the structure will again take place, is a problem which it is difficult to foresee. It should be evident that merely depending upon the past gross volumes of supply and demand for consumer goods and the experiences in structural changes to determine and judge the gross volume of supply of consumer goods now and in the future may possibly be errors in judgement. If we do not wish to go back onto the road of the super-fast growth of the economy and inflation of residents' income, then we must plan on smoothing out the operational mechanism of the national economy and on its development pattern, and in the course of improvement and rectification push reform of the operational mechanism of the national economy and shift the pattern of economic development.

23. Once we change the angle of our thinking and analyze from the background of China's current economic development level and shift in the operational mechanism of the national economy, then our conclusions will be entirely different from the prevalent views at present. In our opinion, the present state of the market is much more normal compared with the overheated and over-tense state of several years ago. Several years ago there was a sense of false prosperity, since no country in the world with a per capita national income of \$350 could be like China in respect to household consumption structure and market supply structure. This state of affairs, where the supply and demand structure of the consumer goods market was at a falsely high level, brought a serious problem to the development of the national economy and could hardly be continued. It signified the ending of the abnormal growth stage of the national economy and entry into a period of stable and normal growth.

As mentioned in the foregoing, since 1979 and particularly after 1984, the market stature has been extremely active and stimulated. Following in the steps of the ordinary consumer goods market demonstrating an over-brisk demand and rapid increase in supply, the consumer goods market enlivened the demand for high-grade durable consumer goods. Taking supply expansion as the center, it was in a state of even greater stimulation and excitement. The strong pull of expansion of the gross volume of demand for consumer goods and rapid shifting of the structure have led to expansion of the gross volume of supply and structural shifting to one side and proceeded to lead to the sustained high speed growth of China's economy.

However, over time, this abnormally high-speed growth has ultimately met with a series of serious restraints. First, it met with serious restraints from agriculture, energy, raw materials, communications, resources, and other bottle-neck departments. Next, since high-grade durable consumer goods possess the special features of complex processing, of being highly technical, and requiring the intensive centralization of funds, focusing on the rapid expansion of supply and demand in high-grade durable consumer goods inevitably forces China's entire industrial structure to turn too early and too quickly in the direction of being highly technical and with a high degree of capital intensification. This leads to demand for large investments, a breaking of liaison between industries (intermediate products and products of the initial grade being unable to keep up with the pace of the upgrading of the end products), and formation of violent friction between large industries and estates. It also causes serious damage to macroeconomic effects. Furthermore, it also met with restraints caused by the change in the economic conduct of consumers. Excessive consumption demand was an enormous reaction to the consumption suppression under the traditional structure in the early period of the reform. In the initial stage, the high increase in consumers' income was largely a repayment or compensation in the opening period. Following

the pushing forward of economic growth, the high-speed increase in consumers' income will surely meet with a serious setback from borderline or marginal possibility of production and will be difficult to sustain for long. The form of satisfaction of consumers' demand will also be necessarily extricated from the false, excessive purchases. Consumers' economic conduct will thereby become normal and this will again lead to the appearance of normal economic growth.

In short, the abnormal growth of the gross volume economy closely related to economic reform and the shift of the operational mechanism over the past 10 years and more has come to the end of the road. Improvement, rectification, and macroeconomic retrenchment are the inevitable results of this pattern being difficult to contain. Actual practices have shown that following the observed effects of improvement and rectification, the overheated economy has cooled down, tenseness in the market has been eased, the currency inflation rate has begun to fall, and people's anticipated conduct has tended to become rational. Nevertheless, this has only temporarily restrained the abnormal growth of the economy, and has not smoothed out and rectified the operational mechanism responsible for the abnormal growth. In order that China's economy may truly pass over the track of abnormal and too rapid growth and turn into a stage of stable and normal growth, we should further push the reform, smooth out and rectify the operational mechanism of the national economy, and effect the integration of changing the cultural and development patterns. Hence, it is necessary to fully understand the following: 1) Take the initial period of the reform with the features of high input, high demand, and growth of the introductory and crude type as having been concluded; let the following period from now on enter the stage of intensive type with the features of slanting input, stable and normal growth. Corresponding to this, the economic reform will enter a period of summing up historical experiences and lessons and finding a new line of thought. 2) Improvement, rectification, and macroeconomic retrenchment act as the mechanism for shifting from abnormal growth to normal growth and shoulder the dual responsibilities of rectifying the line of thought on development and deepening the reform. However, to achieve the organic integration of changing the line of thought on development and pushing the intensification of reform in the course of improvement and rectification is an important historical topic to be met with in the 1990's. Whether or not the selection is right and whether or not the decisionmaking is scientific will have an important bearing on China's economic future in the 1990's and in the 21st century.

24. Concurrently with the arrival of regular growth, the national economy will enter a new era with structural readjustment as the center. In recent years the over-rapid growth of consumption demand and the rapid growth of the consumer goods industry and processing industry which it pushed were the results of the reciprocal promotion and pushing from the rapid expansion of the



high-grade consumer goods industry and the shifting of the entire industrial structure and economic structure thereby caused by it. After consumption demand experienced a short-term quantitative expansion (roughly from 1979 to 1983), it speedily turned to qualitative expansion (since 1984 the demand expansion with seeking high-brand durable consumer goods as central direction) and, through its pushing the growth structure of the national economy, the processing industry likewise speedily expanded. Because of this, certain people have pointed out that the national economy had entered a new stage with structural change as the center.<sup>1</sup>

Under the precondition of currently controlling the gross volumes, we must tightly grasp readjustment of the structure as basic target point, resolutely readjust the industrial structure, ease the structural contradictions so as to ensure restoration and building of a new balance in gross volumes, and dispel the impediments to the long-term stable growth of the national economy. The basic points of our lines of thought are: 1) Firmly insisting on retrenchment of the gross volumes, restricting the growth of gross demand, and preventing the inflation in demand from again exciting the original structural impulses. 2) Shrinking the scope of central investment, readjusting the credit and loan structure, and vigorously pushing the development of agriculture, energy, raw materials, and other major departments. 3) Smoothing out and separating the flow of consumers' increased volume of income, and guiding consumers' income to long term investment (including housing investment and investment in debentures, stocks, and shares). 4) Promoting the merging, buying, and selling of enterprises, eliminating a number of duplicative projects, and also enterprises which have wasted energy and resources and displayed few or no effects, and pushing readjustment of the structure of the deposit volume. 5) Taking advantage the market's loosening trend, and using backbone, well-known products as the dragon's head, building up a supply system of highly efficient high-grade durable consumer goods, pushing the rapid increase in the supply volume of leading consumer goods which are low in production cost, and preventing the renewed vibrations of the market caused by currency inflation of the supply-promotional type and demand-inciting type.

25. Suiting the coming of the new stage with normal growth and structural changes as the center, it is necessary not to lose any opportunity in pushing the shift of the operational mechanism of the national economy. Improvement, rectification, and macroeconomic retrenchment have called forth the early coming of the new stage with normal growth and structural change as the center, but mere improvement, rectification, and macroeconomic retrenchment cannot ensure the steady advancement of the new stage of normal growth and structural change and realization of the targets. Without basically and further reforming the operational mechanism of the national economy, it will not be possible to rectify the distortions and deviations in the various stages and sides internally in the economic operations.

Once improvement and rectification are concluded, economic operation and development will find it extremely difficult not to fall again into the trap of the past growth type and structural pattern. Hence, we must not lose the opportunity of taking as the target suiting the needs of the new development stage and seeking a line of thought to push the reform.

A. Conforming with readjustment of the market supply structure, we must rectify the deviations in consumers' consumption selection, hold tight the direction of demand's hot point, remove the onslaughts of directionally centralized purchases and violent market fluctuations and disturbances of the past several years, and essentially, from the income distribution system, solve the sources of deviations in consumption selections of consumers. At the same time, it is necessary to rigidly control the growth speed of the consumption funds, also control the volume and scope of welfare supply benefits of enterprise units and governmental departments, gradually reduce the supply amount and scope, and raise the prices of the supply products in welfare benefits.

B. Accompanying the rectification of excessive gross demand, shifting consumption demand to a normal stature, and easing the tense conditions of the market, we should further open up the market, improve and perfect the market system, rectify the market's main body, set up clear and definite market order and regulations, and push the market's further and deepening development. It should be seen that basically speaking, the tenseness and confusion and lack of order in the market did not happen after pushing the market reform, but were caused by the excessively irregular high growth and the "false high-degree changes" in structure. Beside, tenseness in the market and confusion in order are precisely the manifestations of the market mechanism being unhealthy and imperfect. Looking back at the reform process in the direction of marketization, there seem to have existed two contradictory phenomena. On the one hand, there was shallowness of the market. That is, the market lacked a deep-layer structure, it shrank in its space area, was weak in market signals, distorted, and returned to non-marketization in the course of marketization. On the other hand, there was the excess character of market; that is, the overextension of market area, over-slanting in market formation, and inappropriate expansion of the realm of regulation by the market mechanism. The source of this phenomena of dual contradiction lies in error in the target direction of marketization and not erroneous guiding in the process of marketization.

C. Pushing the deepening of reform of state-owned enterprises. An enterprise is the microeconomic basis of macroeconomic operation and is also the principal body in market supply. The overheated growth in China's economic development and the false upgrading of the structure is due to the over-rapid increase in the income of individuals and distortion in their economic acts, distortion in the mechanism of the supply plants and merchants, demarcation of spheres of influence of an administrative nature in the markets, and confusion in

market order and rules. At the same time, the underlying source of this mechanism is the unclear ownership relations in enterprises under the existing public ownership system. This makes the appearance between the state, enterprise, and individual an interest pattern in which they pull each other's legs and which exhibits a sort of direct dependence relation difficult to split and contradictions and conflicts which are neither friendly nor aloof. All this leads to a series of distorted acts. Without basically solving this problem, it will be difficult to get rid of the pattern of irregular and blind development in the gross volumes of the economy and false upgrading of the structure and to allow the stage of a new normal growth and shift in the structure. The basic line of thought in pushing reform of the state-owned enterprises and clarifying the ownership right relation of state-owned enterprises is ensuring and protecting the system of public ownership of assets, and devoting efforts to taking as the central task the solution of the borderline in property ownership right in enterprises between the central and local governments, reform the existing enterprise management system and set up a unified assets management structure of the competitive type.

D. Take industrial policy as the center and speed up the shift in macroeconomic management, adjustment, and control mechanism. In recent years, macroeconomic management in the operations of the national economy is principally the control mechanism of gross demand. This mechanism exercises strong regulatory functions over fluctuations in the growth of the gross volumes. It is definite that in the initial period of the reform and in the stage of abnormal growth in economic development, the demand control mechanism which principally takes to control of the gross volumes possesses relatively strong regulatory functions over the gross volumes but lacks the regulatory function over the structure. The appearance of false upgrading in the economic structure in actual economic life is clear evidence of this conclusion. Following the conclusion of excessive and abnormal growth and the coming of the period of normal growth with structural changes as the center, the center of the macroeconomic adjustment and control will shift into the adjustment and control mechanism with the industrial policy as the center which takes as its targets regulating of supply and leading and guiding the structure. Simultaneously with pushing intensification of market and enterprise reform, establishment and perfecting of the macroeconomic adjustment and control mechanism with the industrial policy as the center constitutes a sure guarantee to the mechanism in the stage of normal growth, economic stability and high efficiency in development and with changes in the structure as the center.

#### Footnote

1. See article: "New Growth Stage of the National Economy and Rural Development," by the Research Group on China's Rural Development Problems, JINGJI YANJIU, Issue No. 7, 1985.

## FOREIGN TRADE, INVESTMENT

### Import-Export Licensing Procedures Discussed

90CE0320A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
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[Article by Yang Yuntian (2799 0061 1131), of the Ministry of Foreign Economic Relations and Trade: "China's Import and Export Licensing System"]

[Excerpt] [Passage omitted] 2. Import Licensing System

China's current import licensing system is one of the measures the state uses to control imports. It is enforced throughout the country without restrictions on any country or region. It gives equal treatment to all countries which have trade relations with China. There are no quota restrictions under this system.

The purpose of enforcing the import licensing system in China is to develop foreign trade in an orderly manner, determine the mix of import commodities in a rational manner, ensure that limited foreign exchange is used to import advanced technology, equipment, and raw materials that are most needed for the development of the national economy, guarantee the needs of major state construction and enterprises' technological transformation, and place an appropriate restriction on the imports of high-class consumer goods and non-urgent commodities.

The second clause of the Temporary Regulations for the Control of Foreign Trade stipulates that to import goods requiring licensing, one must apply for an import license in advance and place orders through companies which are allowed by the state to handle the import of such goods. The customs will release such goods only after examining the import license and other related certificates.

The sixth clause of the regulations stipulates that "the Ministry of Foreign Economic Relations and Trade [MOFERT] announces and regulates in a unified manner the variety of goods subjected to the import restriction of the state." In accordance with the amount of foreign exchange earnings and the changes of domestic production situation, MOFERT can readjust and announce the list of commodities requiring licensing.

China's current list of commodities requiring import licensing includes 53 varieties was announced in January 1988. Twenty-three of them are capital goods and raw materials such as steel products, lumber, rubber, petroleum, and wool; 24 are machinery, electronics, and instruments such as various automobiles, televisions, camcorders, and processing equipment; and six are other kinds of commodities. These commodities account for about 45 percent of China's total imports.

Companies which are authorized by the state to engage in import may import commodities other than the above 53 varieties without a license within the scope of their

business operations. Units not authorized for imports are not allowed to import anything on their own. If under special circumstances, they need to import a small amount of urgently needed commodities, they must apply for an import license.

MOFERT is an organ entrusted by the state to exercise unified control over, organize the implementation of, and issue import licenses.

MOFERT is responsible for issuing import licenses for 16 major capital goods including steel products, lumber, rubber, petroleum, wool, wood pulp, sugar, plywood, automobiles, and civilian airplanes. It is also responsible for issuing import licenses for the central government, the State Council, and departments under them.

To meet the needs of the reform and opening up, MOFERT authorized the foreign economic relations and trade departments (commissions and bureaus) of provinces, autonomous regions, and municipalities to issue import licenses for the remaining 37 commodities imported locally. Licensing results should be reported every month to MOFERT for the record.

To facilitate the procedures of application for import licenses in special economic zones and coastal open cities, MOFERT authorized its special agencies stationed in major ports to issue import licenses to areas within their jurisdiction for certain commodities requiring MOFERT licensing.

Local licensing organs and special agencies assume responsibility for their licensing work to MOFERT and accept its supervision.

China is a developing country with insufficient foreign exchange. In order to use foreign exchange rationally, guarantee the import of capital goods that are most needed by the state's key construction projects, and control the import of non-urgent consumer goods, when accepting import license applications, MOFERT and its authorized licensing organs need to ask the applying units to fill out a form of application and present documents indicating banks' consent to the use of foreign exchange. When a unit wants to import something but similar products have been produced in large amount at home, it is required to present documents of industrial authorities showing the urgency of import needs to help licensing organs decide the order of imports. However, above documents are not needed for commodities whose variety and quantity are specified in the state-assigned import plan.

By presenting to licensing organs documents showing the approval of the establishment of enterprise and the contract of joint venture, foreign investors of Sino-foreign joint ventures and cooperative enterprises may apply for import licenses for controlled goods if they are imported with foreign funds and used by their own enterprises.

Import licenses are not required for production equipment (including automobiles) needed for enterprise construction if it is imported by foreign-funded enterprises (wholly owned foreign enterprises) with their own funds.

The abovementioned Sino-foreign joint ventures, cooperative enterprises, and wholly owned foreign enterprises do not need to apply for import licenses to import controlled commodities if they are to be used for export production. If they are to be used for the production of goods sold to domestic markets, they need to be licensed once every six months according to the ratio of domestic sales specified in the contract of joint management. They may be licensed several times a year to facilitate the procedure.

Import licenses are issued within a very short period of time in China. Usually, it takes three to five work days to issue an import license after an application is received.

An import license is valid for a year and may be extended for a certain period of time depending on the circumstance.

An import license may be used in two different years within the period of its validity.

Import licenses are not required for raw materials, semi-finished goods, spare parts, and components imported by various foreign trade enterprises to be processed for re-export and materials and parts provided by foreign investors for export processing and assembly. They are monitored and controlled by the customs.

China forbids the import of narcotics, pornographic books and periodicals, obscene goods and articles, industrial trash, old cloth, and goods that do not meet China's public health and quarantine standards or the state's commodity inspection standards.

Alteration and forging of import licenses are punishable according to the customs law.

Currently import licenses are not transferrable with compensation or marketable in China.

### III. Export Licensing System

China's current export licensing system is based on the "temporary provisions" issued in June 1980.

Currently 173 commodities require export licensing in China. They are subjected to classified management according to the export commodity plan. There are three categories. The first and second categories of commodities are listed by names in the plan (the first category includes 22 commodities and the second category includes 72 commodities). They are major, resource-type commodities concerning the national economy and the people's livelihood, such as rice, soybean, petroleum, and cotton cloth, and competitive, price-sensitive commodities which have a limited foreign market or which are subjected to foreign quotas, such as frozen prawns, eel fries, and bleached cotton cloth. The third category of



commodities includes commodities which require export licensing but are not listed by names in the plan.

Export licenses are controlled in a unified manner by MOFERT and enforced at different levels.

MOFERT is responsible for issuing the export licenses of 29 commodities including mainly corn, mushrooms, tea, soybean, silk, cotton, cotton cloth, coal, petroleum, steel products, brass ware, and aluminum products.

Special MOFERT agencies stationed in ports are responsible for licensing 62 commodities including mainly live cattle, live hogs, live poultry, beef, mutton, some marine and aquatic products, and local, animal, and chemical products.

Provincial, autonomous regional, and municipal economic relations and trade departments (commissions and bureaus) are responsible for issuing the export licenses of 82 commodities.

Export licenses are issued according to the following bases: Commodities which are listed by names in the state plan (94 varieties) are licensed according to the figure specified in the MOFERT's export plan. Above-plan exports need to be reported to MOFERT for special approval. Commodities which are not listed by names in the state plan are screened and licensed by licensing organs.

China licenses certain export commodities mainly because of the need to control export enterprises in various departments and localities in China.

The Chinese government encourages those enterprises, which have managerial ability and a good reputation, pay attention to contracts with foreign countries, keep their promises, and do a good job in fulfilling their export tasks, to vigorously develop export trade and consolidate and eliminate poorly managed enterprises. Export license control has achieved the purpose of effectively expanding exports and increasing foreign exchange earnings by rationally regulating and rearranging export units and guiding various departments and localities in developing exports in an orderly manner in light of the situations of domestic resources and industrial and agricultural production and in consideration of both domestic and international markets.

#### IV. Textile Export Quota Control

Beginning in the second half of 1979, China signed bilateral textiles trade agreements with the United States, Canada, Sweden, Norway, Finland, Austria, and the EEC. Chinese exports of cotton, wool, synthetic fibers and products to these countries are restricted in both variety and quantity by the bilateral agreements. Over 500 varieties are subjected to such restrictions.

About 36 percent of total textile exports of China are under the restrictions of bilateral agreements.

MOFERT is in charge of China's textile quota control. It assigns textile export quotas to all regions and departments in China and supervises their enforcement. The purpose is to fulfill the obligations of agreements, protect our national reputation, and prevent above-quota exports. At the same time, it also ensures that export enterprises have effectively used their quotas and exported the full amount allowed by the quotas and encourages enterprises to increase the exports of high-grade products to expand exports and increase foreign exchange earnings.

In accordance with the management ability, foreign reputation, export achievements, and the quota use rate of all forms of foreign trade enterprises as well as the state textile export plan assigned to enterprises, MOFERT distributes quotas rationally to achieve best economic results.

MOFERT has authorized provincial, autonomous regional, and municipal economic relations and trade departments (commissions and bureaus) to issue licenses for local textile exports and the certificates of origin. In order to strictly fulfill the obligations of agreements, avoid and forbid the occurrence of above-quota exports, and quickly understand the use situation of quotas in all areas, MOFERT has authorized the computing center of the Shanghai Municipal Economic Relations and Trade Commission to follow the number of licenses issued for the exports of textiles throughout China.

#### Greater Use of Market Forces in Foreign Trade Urged

90CE0404A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 6, 11 Jun 90 pp 32-36

[Article by Zhou Xiaochuan (0719 1420 1557), Assistant Minister, Ministry of Foreign Economic Relations and Trade: "Understanding and Exploring Reform of the Foreign Trade System"]

#### [Text] I. Reform of China's Foreign Trade System Has To Meet the Challenges of Economic Development

Analysis of international experiences shows that different countries have adopted different development strategies from which they have derived different results, and that an externally oriented economic development strategy is markedly superior to a development strategy of import substitution. International comparative analysis during recent years further suggests that such a conclusion applies not only to the economy of small countries, but to the economy of large countries as well. Opening to the outside world, and a turn to a more externally oriented economic development is not just a slogan, but also requires a series of reform measures in support of and in association with it.

The theory of the relative superiority of international trade originated during the last century. It made clear that trade between nations could bring advantages for

both, and it pointed out that every country has its own relative advantages. Thus, an international division of labor and trade are important mechanisms for economic development. Proceeding from a conventional politico-economic point of view that emphasized international class struggle, China refused to accept for a long time, and even criticized, this theory of comparative advantage. However, China's opening to the outside world and changes in the international economic situation have caused us gradually to rectify our former theoretical bent, and to change to advocacy of greater participation in the international division of labor. We have also actively explored and realized China's relative advantages both through economic analysis and practice. In order to translate into reality ideas for further opening to the outside world and development of foreign trade, people are steadily exploring those regards in which China holds advantages. We will have to eventually conclude that aside from a small amount of natural resources, overall, China is a country in which the amount of natural resources per capita is relatively low, and that the export of natural resources and roughly processed products made from them cannot be developed to a large extent. For a relatively long time to come, China's outstanding advantage will be in plentiful, low cost manpower resources. Such an analysis of the country's circumstances is bound to lead to a basic conclusion, namely that China should vigorously develop labor-intensive export industries, including both labor-intensive and knowledge-intensive industries. This means that vigorous development of diversified processing industries and service trades will be necessary. Inasmuch as a system that produces staple, primary products in which management is undiversified differs essentially from a system in which management is diversified, the sharp increase in the amount of information that diversified industries need gives rise to a need for "qualitative" changes. The result is that any centrally planned direct control becomes impossible. Therefore, China's foreign trade system has to be reformed to meet the inevitable trend of such diversified industries.

The exports of machinery and electronics manufacturing industries possess classic diversified characteristics, and their potential for entering world markets is also very great. Quite a few such industries require some intensive labor. Analysis of reasons why China's past achievements in the export of electro-mechanical products were not successful shows one important reason was that the price and tax collection systems inherited from the traditional system created a skewed structure in which prices of primary products were remarkably low, but manufacturers' prices tended to be remarkably high. This caused a serious bias against the export of electro-mechanical products. This basic situation of price distortion has not been fundamentally reversed to date. Of course, a lot of improvement has occurred during the past 10 years of reform, but at the same time some new kinds of price distortions have occurred, such as the two-track price system. Opening to the outside world

and reform of the foreign trade system requires that we immediately institute major reforms of the old price and tax collection systems.

The new technological revolution and "the third wave" is now shaping tremendous changes that are subtle in character and of profound and wide-ranging significance: Volume of information is increasing exponentially; consumption exhibits more marked diversification and rapid changes, and in many countries, tertiary industries account for an increasingly large portion of GNP as well as of global economic contacts. We must understand this trend of events clearly and analyze it. In future years, China's economy may suffer grievous losses as a result of the inadequacies of its information structure and its backward tertiary industries. In order to meet the diversified and rapidly changing economic structure, prices, as the most important carriers of economic information, must promptly reflect supply and demand relationships, and be relayed to those who can use this information. In numerous economies, technological information is also frequently relayed along with price information. As of now, no one has yet been able to find any other system outside the free price system that better meets this trend in economic development. No doubt, this poses a grim challenge to progress in economic system reform and the choice of attendant strategies in China.

The existing trade order in the international economy is not completely ideal. Trends toward trade protectionism and the formation of regional blocs continue to exist and even develop. Trade with China is termed "state trading" in many quarters and is discriminated against. We must strive for a more open world trade system, and win equal competitive conditions for China. In this connection, we have recently actively sought to revive China's position as a member state in the General Agreement on Tariffs and Trade [GATT]. This will also pose higher requirements for reform of China's economic and foreign trade system, and can promote progress on such reform.

Imports have become an extremely important link in the country's national economy and progress toward modernization. Production and technological transformation in enterprises requires an import system that possess greater flexibility and autonomy in decisionmaking; export enterprises also require the same free exercise of authority that competitors in the same industries abroad enjoy with regard to the selection of various input items (including imported inputs). This requires that we reform foreign exchange rates and the foreign exchange distribution system in a gradual reduction of excessive administrative limitation of imports so that enterprises can acquire foreign exchange at a moderate price and have the authority to make their own decisions regarding imports. Analysis of international experience shows that excessive limitation of imports, and use of this limitation to maintain relatively low exchange rates and an international balance of payments is frequently done at the price of a tremendous loss in economic returns. Due

caution, moderation, and emphasis on becoming more scientific must be exercised in implementing tilted industrial policies regarding imports. The world has both instances where this has succeeded and also many instances of failure.

Development of the country's economy, and the evolution of the international economy constantly show us that highly centralized command economy systems can no longer meet needs for development. We must bring into being a system in which authority is decentralized and that consists of myriad independent enterprises with authority to make their own decisions, as well as attendant free prices and free inputs (meaning abolition of excessive limitation over the purview of enterprises' operations), and free competition. This constitutes a series of changes having to do with government functions, government finance, tax collection, finance and banking, and production authority. For this reason, reform is a systematic project. Such a huge project can only be carried out under leadership of a strong and enlightened government and in a relatively relaxed economic environment.

## **II. Planning Associated With Foreign Trade System Reform, and Choice of Reform Road**

A. Reform of the foreign trade system is a sub-system of complete economic reform.

Reform of the entire economic system is a systematic project requiring a basic overall plan that calls for preparations and organized associated actions at each step of the way. Trade system reform is a sub-system of this large systematic project, which also requires careful planning and validation, and requires full attention to coordination with other reform plans.

First of all, price reform will provide most basic information for reform of the import structure, and for the evaluation of economic returns. It will provide a flexible mechanism for market distribution of resources for export, and it will create the most basic conditions required for enterprises to make their own policy decisions and to take responsibility for their own profits and losses. Second, reform of tax collections will provide a correct yardstick for regulating and encouraging export activity, and will create a fair competition environment for implementing equitable revenue distribution policies and export-import industrial policy. Third, financial reform will markedly improve financial services for imports and exports, enabling financial regulation of imports and exports of a policy nature, and enabling the multiplication and internationalization of trading corporations. Fourth, making production authority clear and plural, including the way in which publicly owned assets are operated, and recognition of industrial production rights and intellectual production rights, as well as the establishment of markets, will create conditions in which all kinds of enterprises can mature, a separation of operating rights and control rights, and a rational reorganization of production structures.

These numerous reforms constitute a huge systems engineering job. This does not mean, however, that all parts of it can be started at the same time and completed at the same time. Some reforms may reach preliminary realization in a fairly short period of time, while others may take a fairly long time. The overall pace of reform will not only have to be carried out in stages and in sequence; at each stage, however, the most basic correlated matters will have to be put in place. I believe that at the present stage China has to conduct wholesale associated reforms centering around prices, government finance, tax collection, finance and banking, and internal and external trade within a relatively short period of time. A relatively relaxed economic climate will be needed for these reforms to be accepted politically and by public opinion. Right now, however, relatively tight government financial policies and currency policies have to be instituted.

It should be explained that administratively decentralized "reform" may not succeed. It may lower returns as a result of the splitting of markets, and obstruct progress with some genuine reforms. It holds inherent inflationary dangers.

B. The periodicity of and the selection of avenues for foreign trade system reform.

The questions of what the general objectives for foreign trade system reform should be, and what stages of change reform will go through should be answered; otherwise, disorder and highly expensive waste will ensue. An academic summarization of international experience points out that various stages are needed to go from a controlled economy to a free trade system, and that when stagnation occurs for an overly long period of time at certain stages, there is the danger that government officials may become corrupt, and that enterprises will compete with each other for lessees. These are matters that very much deserve our consideration and vigilance.

Selection of avenues for foreign trade system reform is closely linked to the choice of strategies for economic system reform. They contain a series of inexorable logical connections. As we presently understand matters, there are two ways that this choice can go: one is to carry out in tandem price, tax, government finance (including the separation of central government and local government authority), and financial reforms. When controls on total demand are relatively effective, establish a competitive, unified domestic market as quickly as possible; and with the interconnection of international markets, remould foreign trade economic regulatory measures so that foreign trade enterprises and production enterprises would be pushed along the road to bearing responsibility for their own profits and losses, opening up operations, equal competition, and separation between government administration and enterprise management. In addition, this foundation should be used for a gradual deepening of enterprise system reform. The second choice is to use the contract system, or some similar method under the existing price system, and the associated tax, government finance, and finance



and banking systems to bring about reform of enterprises' internal mechanisms, drawing up different tasks and powers under the prevailing unequal system in order to impel enterprises to be responsible for their own profits and losses. Internal reform of enterprises would give powerful impetus to increase effective supply and use active means to narrow the gap between total supply and total demand, thereby creating favorable conditions and a favorable climate for seeking price and tax reform opportunities. I am not very optimistic about prospects for the second choice; it might lead once again to an endless cycle of reforms.

In short, during the present period of improving the economic environment and restructuring the economic order, the strategic choice for the next step in reform is an extremely urgent and daunting matter that requires more scientific, detached, courageous, and intelligent thinking. A plan for foreign trade system reform cannot rest solely on this strategic choice. The problems confronting us must be clearly answered even though they are complex.

### III. Correlation Between Foreign Trade System Reform and Price Reform

The simple goal of economic system reform is pursuit of higher economic returns; only steady increase in returns can sustain the momentum of reform, and gain both political and public opinion support for reform. Economists state clearly that economic returns may be divided into two different yet related aspects: One is returns from resource and product distribution. In a situation where management authority is decentralized it is necessary to have a rational system of prices. The other is returns from enterprise operations, i.e., returns from enterprises' internal management. Improvements in management requires that enterprises have full, independent decision-making authority; one of the most fundamental aspects depends on the existence of a market and a price system.

Looked at in terms of the distribution of returns, the skewed domestic price system causes overall economic returns from foreign trade activity to be greatly at variance with the optimum. Some goods that should be imported have not been imported, more of these products are produced domestically at relatively low efficiency, or else the country goes without them. Some products that should be exported have not been exported, thereby preventing a potential comparative advantage from emerging or enterprises from working to full capacity. If conscientiously calculated, the loss of returns in terms of total trade volume and the structure is astounding. At the same time, despite the considerable progress made in returns from foreign trade enterprise operations, they are still far from satisfactory. One reason is that the decisionmaking authority of enterprises remains extremely limited, and conditions for being truly responsible for their own profits and losses do not exist. They still rely on administrative units to a substantial degree. Although foreign trade reform cannot await domestic price reform and perfection of markets,

one might say that at least there should be a certain degree of synchronization between the two. In many ways, the present demand for price reform and for the building of a market system is extremely urgent.

Advancing price reform, and building and perfecting markets will entail a series of strategic and tactical choices; some of these choices will entail the weighing of numerous advantages and disadvantages. One such problem that attracts attention is whether to sustain a certain amount of loss in order to create conditions for price reform, allowing the market to bear more of the function of apportioning resources, or whether to avoid this effort, temporarily allowing administrative power to exercise more of the function of resources allocation, and enduring the rapid development of administrative corruption. Another important condition for price reform is the need to make sure that there is not too great a gap between total demand and total supply, i.e., a so-called fairly relaxed economic environment.

Broadly speaking, the foreign exchange rate is also a kind of price. It is the price of hard foreign currency. A decision to reform prices will mean a decision to make the foreign exchange rate equitable. This will play an important role both in the building of a foreign trade economic regulatory system, and in foreign trade enterprises becoming truly responsible for their own profits and losses.

To a very great extent, further improvement of investment climate by foreign traders and of the operating environment for the three kinds of partially or wholly foreign-owned enterprises awaits price reform, more equitable foreign exchange rates, and the market system that they can create. In the past we made arduous and utmost efforts to create conditions to attract foreign investment when prices were distorted, foreign exchange rates were inequitable, and markets were incomplete. We did not even flinch from too great a use of some special preferences, namely a special microclimate and what has been termed "use of one set of distortions to cover up yet another set of old distortions" to realize this goal. Today, quite a few people feel that such tactics have gone about as far as they can go, and that the awaited price reform and more equitable foreign exchange rates may make it possible for us to make great improvements in the investment climate for foreign businessmen.

One idea to substitute for price reform is the adoption over a wide area of a shadow price system (alternatively termed an accounting price system, or a policy price system) for economic accounting without changing the prevailing system for the time being. I feel that this system can be used only within a relatively small purview for a fairly small quantity of staple and undiversified commodities. It can be used to improve the distribution of returns, but cannot be used for long. In short, even though true price reform is painful in various ways, a substitute for it is hard to find.

#### IV. Economic Regulation System for Foreign Trade

Concretely speaking, one important feature of foreign trade system reform is to shift from direct command-style plan control to indirect policy regulation using economic methods, and to permit all kinds of enterprises to be able to make their own decisions, operate free of restraints, and be responsible for their own profits and losses under this form of regulation. Numerous economic methods are interrelated and mutually limiting, such as the price system, foreign exchange rates, customs duties, export duty refunds, and import-export financing. Sometimes we can also lump together for consideration limited quantity restrictions and distribution. They form a system termed a foreign trade economic regulation system. Planning and validating such a regulatory system requires clear policy goals, not to solve principal individual immediate conflicts, but rather to build a foreign trade system that is compatible with reform goals and that is highly effective. This also includes certain transitional regulatory policies. Simply put, the basic features of these goals are as follows: decentralized operation under delegated authority, separation of government administration and enterprise management, free inputs, independent decision making authority, responsibility for own profit and losses, equal competition, maintenance of internal balance of payments, support for an externally oriented development strategy, support for limited industrial policy.

The price system should shift in the direction of a balanced market price system that is connected to international markets. This means that the prices of an overwhelming majority of commodities and services would be decided by the market. The government could set prices for individual commodities of strategic significance to keep their prices stable and to prevent excessive fluctuations. However, these prices would have to be close to the moving mean value of the equilibrium price. The significance of this for foreign trading corporations is that it would permit the practice of an agent system for exports, prices paid for commodity procurement changing with the market. For exports, either an agent system or agent-set prices could be practiced. Until such time as prices became equitable over a wide area, differential regulatory methods would have to be used to make up for price distortion tendency. In addition, it should be clearly realized that this remedial policy is solely of a transitional nature.

The internal indirect tax system should be coordinated with price reform and the delegation of operating authority in a shift toward a standardized added value tax system. When products are exported, the added value tax would be rebated, when products are imported, the added value tax would be levied. For materials brought into the country for processing, and for products made from imported materials, imports could be exempted from duty, and exports could be exempted from duty or the duty refunded. Until such time as a standardized added value tax system has been instituted, while product duties or too frequent added value taxes and

business taxes still exist, a record will have to be kept of the cumulative amount of indirect taxes levied on main imports and exports for which taxes are rather seriously distorted so as to be able to refund sufficient indirect taxes at the time of export and to levy sufficient taxes at the time of import.

An equitable rate of exchange is the equilibrium rate of exchange. It maintains the international balance of payments, and it will ultimately help the renminbi become a convertible currency. There are two ways to produce an equilibrium rate of exchange: One is to set the foreign exchange rate officially at the balance point at which it is usually calculated. The other is to permit exporters to retain all foreign exchange earnings, and to open either foreign exchange markets or retention bill markets, the markets deciding the equilibrium rate of exchange. The rationalization of the direction of exchange rates will greatly change the foreign exchange distribution mechanism, thereby sparking improved returns from the distribution of the supply of goods throughout society. There are also two technically not entirely identical transitional means that apply to the two different methods for realizing an equilibrium rate of exchange. One important problem is that international experience shows that exchange rate reform requires courage and resourcefulness, and is not amenable to very small incremental steps. It should also be noted that there are serious drawbacks to analyzing the effect of exchange rate changes on price indices purely from cost advances.

In order to help the economic development strategy move in the direction of being of the more open type, corresponding financial reforms have to be made to enable importers and exporters to get credit promptly. Every effort also has to be made to expand the credit of both sellers and buyers on the basis of returns from exports of such things as industrial equipment, and their cash capabilities. All kinds of insurance businesses related to the import and export business should be started. Financing of imports and exports for policy reasons is the most equitable and most acceptable method of expressing domestic industrial policy in foreign trade. Financing for policy reasons requires consideration of the establishment of an import-export bank. Mixing together credit extended for commercial reasons with credit extended for policy reasons will be bad for financial system reform and for putting industrial policies in place. Use of financing for policy reasons should be prudent and limited.

Government financial subsidization of imports and exports should be abolished insofar as possible. In cases where this is difficult to do, a schedule showing incremental decreases in subsidies to be made within a certain period of time may be drawn up and published. For imports, in particular, subsidies are largely entirely unnecessary. Providing import subsidies to the ultimate users is far preferable to the subsidization of importers, and no subsidies are preferable to subsidies. Some

money can and should be allocated out of national budget for use in supporting an export industry information system.

For some imports that must be administratively limited, a commodity-by-commodity aggregate limitation method should be adopted insofar as possible rather than allowing officials who exercise control to examine and approve commodities "one by one." For some commodities, quality grade control methods may be used. Export amount limits may be of either the active quota type or the passive quota type. Active quantity limits should gradually decline to the lowest limit as domestic price reform progresses. Import quantity limits should be regulated as quickly as possible through the use of customs duties and substitutions. Only extremely special individual cases should be excepted. As domestic price reform progresses, customs duties should flatten out. Customs duties levied for industrial policy reasons should be applied wisely and scientifically. Full attention should be given to the difference between real protection rates and nominal protection rates, and to the timeliness of protection. For all commodities for which import and export quantity limits need not be retained, consideration should be given to the soonest possible use of the market competition mechanism to apportion quotas of the aggregate amount among individual enterprises concerned, thereby assuring distribution benefit standards. The use of some other criteria as a partial quota distribution standard is sometimes necessary for commodities of different quality; however these criteria and the rules for calculation their allocation should be transparent, open, and subject to supervision.

#### V. Foreign Trade Enterprise Competition Mechanism and Organizational Structure

During the course of 10 years of reform, China has introduced competition among enterprises in the foreign trade field, particularly in exports. It should be realized that the competition mechanism plays an extremely positive role in improving work, raising efficiency, and expanding trade; nevertheless, it also produces some not entirely pleasant problems. Preliminary analysis of these problems shows that they do not result from the competition mechanism per se, but rather stem mostly from tumult in the price mechanism, and inequities in competitive conditions. It should be said that we have the ability to solve the competitive conditions policy, and to create requisite conditions to pursue further price reforms. Another avenue of thought for solving the negative effects of competition is to use civilian coordination organizations (chambers of commerce) to prevent "excessive" and improper self-canceling competition. Analysis shows that equal competition and free input are necessary prerequisites for effective civilian coordination. Lacking these conditions, civilian coordination may be only slightly effective or become more administrative in nature. We must, and we can, consider further creation of more equitable competitive conditions and a coordination mechanism.

Yet another very prominent recent problem in the foreign trade mechanism is that reform has demolished the former highly specialized division of labor, and the single organizational form of corporations specializing in foreign trade operating as a monopoly. Meanwhile just what new corporate organizational structure can respond to the system changes and the needs of future long-term development is a question for which a definite answer is still lacking. Furthermore, the current corporate organizational structure is clearly unsatisfactory. In order to meet needs in developing the export of manufactures, there will be more, relatively small, highly specialized companies engaging in foreign trade. This is bound to happen, and it is beneficial. After considering the successful experiences of Japan and South Korea in organizing large conglomerate business organizations, I believe that China must create conditions that allow some basic foreign trade corporations to develop in the direction of becoming conglomerates. Doing this will require increasing competitive pressure to encourage the economies of scale and to eliminate market fragmentation, evening out competitive conditions, and further enlarging enterprises' authority to make their own decisions.

Foreign trade enterprises have a feature that differs from industrial production enterprises, namely their intangible assets (skilled personnel, channels, reputation, trademarks, information, and the prestige of their managers), which are more important than their tangible fixed assets. Thus, mechanisms for the development, use, evaluation, and remuneration of human resources and enterprises' authority to make their own decisions are extremely important. Of all personnel, it is the role of managerial personnel that is most prominent. Creating conditions so that a new generation of entrepreneurs can quickly rise is an extremely important matter in current enterprise reform. In a certain sense, it is even more important than the enterprise ownership issue.

#### Fujian's Semiannual Foreign Trade Performance

90CE0406B Fuzhou FUJIAN RIBAO in Chinese  
13 Jul 90 p 1

[Article by Wu Guinan (0702 2710 0589) and Liu Zhicheng (0491 1807 2052): "Fujian's Foreign Exports Rank One of the Highest in China in the First Half of 1990—Fulfilling Nearly 70 Percent of the Annual Plan and Increasing 35 Percent as Compared to the Corresponding Period of 1988"]

[Text] To guarantee the need of foreign exchange for national economic construction, Fujian's foreign trade and export enterprises tried in every possible way to increase commodity exports. In the first half of 1990, Fujian Province exported \$893 million worth of commodities, fulfilling 69.64 percent of its annual plan and increasing 35.65 percent as compared to that in the corresponding period of 1989. Fujian's exports ranked one of the highest and export growth ranked sixth place in China.



Fujian's export has four characteristics in 1990: 1) It has progressed rapidly and increased by a large margin. As time goes by, export volume increases monthly. Exports in June alone reached \$197 million. 2) Different categories of foreign trade companies developed fairly evenly. By the end of June, provincial-level specialized foreign trade companies fulfilled 71.58 percent of their annual plans, an increase of 20.7 percent over the corresponding period of 1989, reversing the declining trend in the export situation of provincial-level specialized foreign trade companies in the past two years. Provincial-level industry and trade companies and general companies fulfilled 92.2 percent of their annual tasks. Eight prefectures and cities and the Xiamen Special Economic Zone all fulfilled their semiannual plans. The exports of enterprises of three capital sources increased 1.1-fold as compared to the corresponding period of 1989. 3) The actual collection of foreign exchange earnings was faster, and the net income of foreign exchange from exports increased 41.4 percent as compared to the corresponding period of 1989. 4) The procurement and stock of export goods increased. Statistics show that in the first five months, the value of export goods procured in all areas increased 27.5 percent and the stock increased 26 percent as compared to the corresponding period of 1989.

The achievements of foreign exports in the first half of 1990 can be attributed mainly to the following three reasons: 1) Foreign trade workers at all levels approached the task of increasing foreign exports from the high plane of opposing certain Western countries' economic sanctions and promoting domestic economic stability and development. With such a clear guiding principle in mind, it was not hard for them to find measures and methods. 2) The further improvement of the foreign trade management contract aroused the enthusiasm of all export enterprises for striving to fulfill the plans the province assigned to them. 3) The vigorous support of financial departments helped to alleviate the shortage of funds needed for export procurement.

It was understood that Fujian's export situation was good in the first half of 1990, but the problems facing the second half must not be underestimated. Workers of foreign trade enterprises in all localities should try hard to come up with measures and ideas to guarantee the steady increase of foreign exports for the whole year.

#### **Fujian Plans Strategies for Further 'Opening Up'**

90CE0406A Fuzhou FUJIAN RIBAO in Chinese  
16 Jul 90 pp 1-2

[Article by staff reporter. "Review Experience To Create Better Conditions and Raise the Level of the Work of Opening Up—Provincial Forum of Mayors and Commissioners Analyzes and Studies Fujian's Current Situation, Problems, and Strategies for Opening Up"]

[Text] Between 9 and 12 July, the Fujian Provincial Government held a provincial forum of mayors and commissioners. Governor Wang Zhaoguo presided over the forum. Deputy governors You Dexin, Chen Mingyi,

and Shi Xingmou and other officials of related departments at the provincial level attended. The forum emphatically analyzed and studied the issue of Fujian's current situation, problems, and strategies for opening up. You Dexin addressed on special issues.

Participants at the forum held that Fujian's current situation in opening up was very good and that we needed to make persistent, firmer, and more conscientious efforts to implement the reform and open policy, continue to do a conscientious job in foreign economic and trade work, vigorously absorb foreign capital, develop an export-oriented economy, and raise Fujian's work of opening up to a new level. For this, we must pay attention to the following issues in guiding ideology and concrete work:

1. We should have a correct understanding of the new situation we are facing in absorbing capital from Taiwan and foreign countries and increase the sense of urgency and responsibility in opening up. Currently we are facing a favorable international and domestic situation. Now is the opportune moment for us to further open up, vigorously absorb foreign capital, and develop an export-oriented economy. Fujian's economy develops continuously, and its investment environment is improving day by day. The development trend of foreign investment, especially Taiwan investment in Fujian, is very promising. However, we should notice that Fujian Province is facing a new complicated situation in opening up. There are opportunities as well as challenges and pressures. For this, all localities and departments should increase the sense of urgency and responsibility, pay attention to work strategies and methods, and work ceaselessly and continuously to do a good job in all fields to promote the open policy.

2. We should conscientiously review experience and do a better job of opening up. Fujian Province has pursued the open policy for 11 years. It has gained many experiences as well as some lessons that need to be reviewed and studied. The first is to proceed realistically, absorb overseas Chinese, Taiwanese, and foreign capital according to local conditions, and ensure that strong points are developed and weaknesses are avoided. Second, guide and encourage foreign investors in accordance with the state's industrial policy and Fujian's industrial development plan, to develop productive projects, export and foreign exchange-earning projects, technologically advanced projects, and industries that are either labor-and-technology-intensive or capital-and-technology-intensive. Third, establish links with foreign and domestic enterprises, strengthen coordination between inland and coastal units in Fujian Province, develop cooperation with neighboring provinces, municipalities, and departments at the central level, and increase our ability to spread toward the inland and abroad. Fourth, make a group of good friends, manage well a group of enterprises with "three capital sources," and give play to the role of go-between and model. Fifth, do a conscientious job in the affairs of "three compatriots"—overseas Chinese, Hong Kong, Macao, and

Taiwan compatriots—to win over the support of overseas Chinese and try to attract Taiwan investors with overseas Chinese, Hong Kong, and Taiwan investors; and in addition, attract foreign investors with Taiwan investors to ensure that overseas Chinese, Hong Kong, Taiwan, and foreign resources are integrated. Sixth, strengthen infrastructure construction with emphasis on transportation, energy, and communications to improve investment environment. Seventh, stress the improvement of the intangible aspects of investment environment, better service and management, uphold the principle of "safety, preferential treatment, convenience, and benefit," persist in the joint examination and approval system under which "foreign trade and economic departments are in the same building," and form "a coordinated process," maintaining the environment of "low wages and fees and high efficiency." Eighth, train and bring up a contingent of foreign economic and trade workers who are politically strong, professionally mature, and have an honest work style.

3. We should further clarify the guiding principle and ideology for vigorously absorbing foreign capital. In accordance with Fujian's practice of absorbing foreign capital in the past few years and with the trend of development in the future, we must clarify the following seven principles: 1) We should adhere to the principle of developing simultaneously large-, medium-sized, and small-sized projects. 2) We should adhere to the principle of welcoming all investors, whether they are "overseas Chinese, Taiwanese, Hong Kong and Macao residents, or foreigners." 3) We should persist in combining the efforts to encourage the development of large tracts of adjoining land by foreign investors with the efforts to encourage the construction of single projects and factories. 4) We should persist in combining the development of basic industries and infrastructure with the development of processing industry projects. 5) We should persist in combining the efforts to attract labor-intensive projects with the efforts to attract capital- and technology-intensive projects. 6) We should persist in combining the establishment of new enterprises and the transformation and transplanting of old enterprises. 7) We should persist in combining the efforts to import industrial projects with the efforts to attract foreign capital for developmental agricultural projects.

4. We should promote in an organized and planned manner the development and management of large tracts of adjoining land by foreign investors. The current situation of foreign investors' requests for such development is very promising. The development of large tracts of adjoining land is an important policy issue. It should be pursued in a well-organized, planned, vigorous, and safe manner in strict accordance with relevant policies, rules, and regulations including the "Provisional Regulations for the Management of Foreign Investment in the Development of Large Tracts of Adjoining Land," which was issued by the State Council. We should strengthen planning and design a rational layout. We should not

rush headlong into mass action, divide the land carelessly, and start projects blindly; nor should we compete with others blindly and vie to lower our terms. Different small development zones should have different characteristics and functions. The development of large tracts of adjoining land should be done step by step, in different stages and groups, and one area at a time. Such development should insist on using single projects to accelerate the development as a whole. It is necessary to strengthen the district management of such development. All political, economic, and social activities within the districts must comply with state law, and all administrative, tax, judicial, and customs control must be within the boundary of state law. The general development plan must include and reserve spaces for the establishment of necessary administrative and management organs and public welfare facilities.

5. We should continue to create a favorable environment and conditions for opening up. All localities should vigorously explore different forms of fund raising and solve the widespread coordinating problem of infrastructure. It is necessary to set priorities and centralize financial and material resources to strive to do a good job in the improvement of the tangible aspects of investment environment with emphasis on transportation and improve the coordination of energy and communications facilities. At the same time, we should continue to make great efforts to do a good job in the improvement of the intangible aspects of investment environment and to live up to the "three adherences and one maintenance," and conscientiously increase work efficiency. We should strengthen and improve foreign investment service and management and raise the standards of service and management. We should strengthen the establishment of rules, regulations, and systems concerning foreign nationals and countries, pay attention to formulating control measures concerning the handling of complaints, labor charges, capital circulation, and foreign exchange of enterprises of three capital sources, and put the management of such enterprises on the track of legalized and standardized management. We should continue to encourage, support, and assist investors to do a good job in managing enterprises of three capital sources and ensure that there are profits for investors. We should strengthen guidance, coordination, supervision, and inspection for the production and management of existing enterprises of three capital sources, earnestly implement existing rules, regulations, and policies to protect the legal rights of foreign investment, and ensure that foreign investors know "where to go to file a complaint."

6. We should step up our efforts to standardize and systematize the work of absorbing foreign funds. All localities and departments concerned should step up research and strive to do a good job in the planning of foreign investment attraction projects, the convocation of trade talks and import receptions, the signing of

projects, the coordination of financial sources, construction and implementation, policy study, work coordination, and service and management so as to put the work of absorbing foreign funds onto the track of standardization and systematization.

7. We should step up investigation and research work in opening up. All localities and departments should step up the investigation and research of foreign economic and trade work, know how to discover new situations and problems and review experiences and typical cases, and report new situations and problems to higher authorities in a timely manner.

8. We should ensure that socialist ideology is improved in opening up. Under the situation of opening up, on the one hand we should import and absorb advanced foreign science and technology, management experience, and outstanding culture; on the other hand we should adhere to the socialist orientation and resist the erosion of decadent capitalist ideas. All localities and departments should carefully study and implement Comrade Deng Xiaoping's guiding principle of "grasping with both hands," and the spirit of General Secretary Jiang Zemin's related instructions, in order to enhance the awareness of ideological improvement at the altitude of opposing evolution, penetration, and subversion. In light of reality, they should vigorously strengthen ideological improvement, party building, the building of an honest government, and ideological and political work to enable the broad masses of party members and cadres to resist on their own the erosion of decadent capitalist ideas and withstand the trial of ruling, reforming, and opening up.

#### Shandong's Semiannual Foreign Trade Performance

90CE0406C Shanghai JIEFANG RIBAO in Chinese  
21 Jul 90 p 1

[Article by reporters Mao Yongxiong (3029 3938 7160) and Di Wutong (4574 0063 0681): "Shandong Peninsula Makes Gratifying Achievements in Opening Up—Absorbing \$1.17 Billion of Foreign Capital and Procuring 3.3 Billion Yuan Worth of Export Goods in the First Half of 1990"]

[Text] We learned today at the press conference called by the Guiding Group for the Coordination of Shandong Peninsula Economic Open Zones that Shandong Peninsula made gratifying achievements in opening up in the first half of 1990 and that it will be even bolder in opening up in the second half of 1990. Through further enhancement of the awareness of opening up and raising the level of cooperation with foreign countries, Shandong will start a number of backbone projects in the fields of basic industries, agriculture, and high and new technology, vigorously explore the possibility of running enterprises overseas and building tax-protection warehouses within the province, expand the use of funds from Taiwan, and strive to make a deeper breakthrough in the development of opening up.

Since Qingdao, Yantai, Weifang, Zibo, Weihai, and Rizhao cities of Shandong Province were declared open to foreign countries in March 1988, the Shandong Provincial CPC Committee and Government have attached great importance to them and formed a special guiding group for the coordination of economic open zones in the peninsula to coordinate related work in the six cities and to push the peninsula to stride toward opening up.

After opening up, especially since the beginning of 1990, the foreign capital use and foreign trade of Shandong peninsula both increased substantially. In the first half of 1990, the six cities approved a total of 178 projects which used foreign capital, an increase of 28 percent over the corresponding period of 1989. As of the end of June, the six cities of the peninsula had approved 1,138 projects which used foreign capital. Contracts involved a total of \$1.17 billion of foreign funds, and the actual input of foreign capital was \$577 million. The foreign capital investment structure of Shandong peninsula became more and more rational in the first half of 1990. Over 90 percent of the 91 newly approved enterprises of three capital sources are productive projects. In the first half of 1990, the development of Taiwan investment in Shandong peninsula was fairly fast. Sixteen projects were approved, bringing the total of enterprises with Taiwan investment to 40. Since the beginning of 1990, in view of the improvement and rectification efforts and the shortage of funds at home, the six cities of the peninsula have put special emphasis on projects funded solely with foreign capital and on old enterprise's "transplanting" projects, which can increase the stamina of economic development, and approved 11 projects funded solely with foreign capital. Of which, over 70 percent are old enterprise "transplanting" projects.

In spite of unfavorable conditions at home and abroad in the first half of 1990, the six cities of Shandong peninsula still managed to increase foreign trade by a large margin—16.1 percent over the corresponding period of 1989—and procured 3.33 billion yuan worth of export commodities.

Xu Shanyi [6079 0810 0034], deputy head of the Guiding Group for the Coordination of Economic Open Zones in Shandong Peninsula, told reporters that under the leadership of the Shandong Provincial CPC Committee and Government, Shandong peninsula will make a breakthrough in the development of opening up. In the second half of 1990, it will do a better job in investment orientation, vigorously develop projects in energy, transportation, raw materials, basic industries, foreign exchange-earning agricultural production, and high and new technology, and strive to start a number of backbone projects which can give an impetus to regional and industrial development. It will also further protect the smooth and sound development of enterprises of three capital sources, strengthen management in this regard, straighten out the division of work, and perfect the system. In the second half of 1990, Shandong peninsula will find more ways to cooperate with foreign countries.



vigorously explore plans for tax protection warehouses and plants, and further expand the use of Taiwan funds.

In February 1990, with the approval of the State council, Jinan City was included in the coastal open area. Recently Jinan City definitely joined the economic open zones of the peninsula, bringing the number of open zones to seven cities and further enhancing Shandong peninsula's strength to open up to the worlds.

#### **Guangdong Issues Investment Regulations for Foreigners**

90CE0433A *Guangzhou NANFANG RIBAO in Chinese*  
28 Jul 90 p 1

[Unattributed article entitled: "Provincial Government Issues Explicit Regulations on Encouraging, Restricting, or Prohibiting Foreign Investment Projects in Guangdong"]

[Text] In order to rationally guide foreign investment and suit it to the national economy and the social development plan in our province, as well as to protect investors' rights and interests, the Guangdong provincial government recently issued explicit regulations on what kinds of foreign investment projects should be encouraged, restricted, or prohibited.

In the next few years, the province will focus on encouraging the following development projects: infrastructure projects, such as electric power, ports, railroads, highways, airports, and communication; projects in the raw and semifinished materials industries, where the province has long relied on imports; supportive industrial projects, such as the production of spare parts for automobiles, electronics, and electrical appliances, precision mould manufacturing, and surface heat treatment; new technological industries, such as electronic information, new materials, and bioengineering; agricultural technology industries; the introduction of new seedlings and breeding techniques, and agricultural products processing; and high value-added projects and export-oriented processing industries. Those who invest in the projects mentioned above will enjoy favorable treatment.

Projects whose development should be restricted include: industries whose production capacity and product quality already satisfy the demand of the domestic market; industries which have a limited foreign market or which involve export licensing or export quota management; products which lack competitiveness in the international market, are mainly for domestic sale, and which cannot achieve a foreign-exchange balance on their own; introductions of solitary assembly lines, and imported spare parts for products assembled and sold only in the Chinese market in order to profit from differences between foreign and domestic prices; projects that process China's unique arts and crafts products and precious heavy metal products; and tourism and commercial service facilities, as well as all other projects restricted by the state. Projects whose

development is prohibited are: those that concern national sovereignty or are detrimental to state security or social and public interests; those that pollute the environment; those that destroy natural resources or that harm human health beyond a level stipulated by the state; and other activities that the state prohibits. With the exception of investing in projects that belong to the categories listed above, whose encouragement, restriction, or prohibition is explicitly regulated, foreign investors may invest in projects that do not relate to the comprehensive and balanced planning by the state and province, do not rely primarily on imported raw materials, and that do export all or most of their products.

Guangdong Province adheres to the principles of equality, mutual benefit, and sincere cooperation to attract foreign investment. All approved foreign investment projects will receive full assistance and convenience in terms of financial flow, supplies of production materials, product sales, social services, and so on.

#### **Policy Recommendations for GATT Services Trade Negotiations**

90P30084A

[Editorial Report] The 30 July issue of GUOJI MAOYI WENTI (INTERNATIONAL TRADE JOURNAL), the Chinese-language journal of the MOFET (Ministry of Foreign Economic Relations and Trade)-affiliated University of Foreign Economic Relations and Trade published in Beijing, carried on pages 37-42 an article titled "Services Trade—A New Topic at GATT's Uruguay Round." Author Wang Ping [3769 8003] of the university discussed reasons for this topic's introduction into the multilateral negotiations and made seven policy recommendations for China.

Wang noted that China's participation at the recent Uruguay round was limited due to its failure to date to acquire contracting party status within the GATT. He observed that during the recent service trade negotiations, China had "basically" agreed with other developing countries, i.e. that given its backwardness in this sector, it would be unrealistic to expect China to open it up fully. He even ventured that China's "very backward" services sector would benefit from a "revolution" in concepts, content, scope, and format. Acknowledging that the past 10 years' open policy had afforded China many opportunities to introduce foreign technology and investment, Wang argued that even greater opportunities exist for introducing managerial services. He recommended that China open up several areas of its service sector "to a certain degree" to enable it to fulfill some of the prerequisites necessary for engaging in international trade.

Wang made the following seven policy recommendations for China to follow during the service trade negotiations: 1) Agree in principle with the goals of the service trade negotiations passed by the Uruguay Council of Ministers. 2) Affirm the Uruguay Council of

Ministers' principle of carrying out dual track commodity trade and service trade negotiations and oppose the linking of the two. 3) Given the special nature of the services sector, distinguish the characteristics of the different trades and then proceed gradually with negotiations. 4) Seek increased preferential terms for developing countries' service sectors, given their different levels of development. 5) To facilitate developing countries' exports of services and other goods, seek to have developed countries first remove barriers from service industries where they enjoy a comparative advantage such as tourism, construction projects, and export labor. 6) Respect each country's sovereignty, legal statutes, and domestic economic development policies. 7) Respect existing international agreements, treaties, and rules.

Wang concluded that it is imperative for China to study the services trade fully before participating in the next round of Uruguay negotiations. He spoke of the pressing need to explore ways to resolve the dilemma of trying to uphold GATT principles and clauses while maintaining a socialist economic system. He also said that it was absolutely critical to examine "the pros and cons of China's participation in the GATT and in the service trade negotiations" and their potential impact on the country's trade system and policies.

#### **Sino-Indonesian Trade Expanding Rapidly**

90P30086A Beijing JINGJI RIBAO in Chinese  
6 Aug 90 p 1

[Summary] As Sino-Indonesian relations continue to improve, trade between the two nations has been expanding rapidly. Most recent Customs Statistics indicate that during the first six months of 1990, their total volume of bilateral trade was \$547 million, a 78.8-percent increase over the same period in 1989. Indonesia now ranks as China's 15th largest trading partner—it ranked 20th in 1989—and accounts for 1.12 percent of China's overall trade, up from 0.89 percent in 1989.

In 1981, the total value of Sino-Indonesian bilateral trade was \$119 million, accounting for only 0.27 percent of China's overall trade that year. Trade between the two countries began to expand after they signed a memorandum of understanding concerning direct trade in 1985.

#### **Tax Revenue From Foreign Firms Rises in Shanghai**

OW060904 1990 Beijing XINHUA in English  
0133 GMT 6 Sep 90

[Text] Shanghai, September 6 (XINHUA)—Tax revenue from foreign-funded enterprises in Shanghai reached 330 million yuan (about 70 million U.S. dollars) from January to July this year, a 43 percent increase over the same period last year.

One important reason for this big increase is the increased number of taxpayers in this sector.

Some foreign-funded ventures which started several years ago have completed their periods for reduced or exempted income tax.

Shanghai now has 63 foreign-funded enterprises which pay income tax, including 17 enterprises that became eligible to pay tax this year. These new taxpayers have brought about an increase in tax revenue for the city of nearly 10 million yuan.

Another important reason for the big increase in tax revenue is the booming business environment.

Both production and marketing thrived in the first half of this year and increased the tax paid by the Shanghai Volkswagen Corporation by 60 percent over the same period of last year.

Since the beginning of this year, the four foreign-funded banks in Shanghai—the Hufeng, Huaqiao, East Asia, and Magaly banks—have increased their business dealings and paid a total of more than nine million yuan in taxes.

#### **Fujian Approves Foreign-Funded Land Deals**

OW1209102390 Beijing XINHUA in English  
0747 GMT 12 Sep 90

[Text] Xiamen, September 12 (XINHUA)—Fujian Province had approved more than 60 overseas-funded real estate projects involving 500 million U.S. dollars of investments by the end of June this year.

These projects were mainly focused in Xiamen, Quanzhou, Zhangzhou and Dongshan. Among the investment, 400 million U.S. dollars were used in Xiamen's 52 real estate projects.

In recent years, about 500,000 square meters of residential houses, office buildings and factory buildings have been bought by foreigners. The selling price has doubled.

To attract more foreign funds, Fujian provincial government offered 52 pieces of land, covering a total area of 500,000 square meters, for overseas businessmen to develop, at the September 8 to 11 trade fair held in Xiamen.

### **ECONOMIC ZONES**

#### **Fujian Builds Industrial Zones for Export Enterprises**

OW3108062590 Beijing XINHUA in English  
0554 GMT 31 Aug 90

[Text] Fuzhou, August 31 (XINHUA)—The setting up of small industrial zones for rural export-led enterprises is the latest trend in the development of rural industry in east China's Fujian Province.

Local economists hold that such a trend represents the future path for rural industry in China, in the coastal areas in particular.

So far 60 such industrial zones have been formed throughout the province. They have proved conducive to promoting the development of an export-led economy and attracting more overseas investment. The enterprises already in the zones have used a total of \$295 million overseas capital.

Since 1979 Fujian's rural industry has achieved a rapid growth, with an average annual increase of 33 percent in the number of township enterprises.

By 1989 Fujian had 463,000 township enterprises with a total employment of 2.8 million. Their combined output value in the year was 20.09 billion yuan, including 12.13 billion yuan produced by industrial enterprises, accounting for 33.7 percent of the province's total industrial output value.

In addition, they provided 1.73 billion yuan worth of export products, accounting for 20 percent of Fujian's total exports during the year. They paid 979 million yuan in profits and taxes, or some 20 percent of the province's total financial revenue in 1989.

Since the economic rectification policy was implemented two years ago, Fujian's township enterprises have readjusted themselves to both domestic and international markets. In addition, they have made efforts to build small industrial zones to attract more overseas capital to establish rural enterprises producing for export with imported materials.

In the newly developed small industrial zones investment conditions are much better than in individual township enterprises. Supplies of water and electricity, and construction of roads and telecommunications facilities there are now programmed in a unified way.

Quanzhou and Putian cities have built 39 small industrial zones with a present total accommodation of 156 overseas-funded rural enterprises. These firms produce with supplied materials, components and designs, and in the form of compensation trade. Such enterprises in Quanzhou have used a total of \$32 million of foreign capital so far.

Moreover, small industrial zones for export-oriented rural enterprises have also been built in Fuzhou, Xiamen, Nanping, Sanming, Longyan, and Ningde prefectures and cities.

A local official said overseas-funded enterprises in the small industrial zones have up-to-date equipment, and the quality of their products is high. They are also more competitive on the international market.

It has been learned that 87 overseas-funded enterprises now in operation in Shishi city produced nearly half of the city's total industrial output value in the first half of

this year. Their exports during the period achieved an increase of 32 percent as against the same period last year.

Fujian's township enterprises have attracted capital from Federal Germany, Canada, the Philippines, and Japan as well as Hong Kong and Taiwan.

### **Shanghai Announces First Free Trade Zone in Pudong**

*OW1009191290 Beijing XINHUA in English  
1528 GMT 10 Sep 90*

[Text] Shanghai, September 10 (XINHUA)—The first free trade zone on the Chinese mainland will soon be set up in Shanghai's Pudong Development Area.

This was announced at a news briefing hosted today by the Shanghai Municipal Government.

The free trade zone will be located in Waigaoqiao at the northeastern tip of the Pudong area.

Ruan Yanhua, general manager of the Free Trade Zone Development Company, said that in the first period of construction of the zone, a 3.28 sq km area will be developed between 1991 and 1995; it will be expanded to 10 sq km by the year 2000.

In the first five-year period, a total investment of one billion yuan will be required, including a state allocation. Loans and foreign investment will also be sought.

The general manager said he welcomes foreign businessmen and businessmen from Hong Kong, Macao and Taiwan to invest in the zone's infrastructure, and in the entrepot trade, processing for export, bonded storing and transportation sectors.

This year, Ruan said, the plans of the zone will be drawn up and international bidding invited.

### **Pudong Plans 110,000 Telephone Lines by 1995**

*OW1309061090 Beijing XINHUA in English  
0550 GMT 13 Sep 90*

[Text] Shanghai, September 13 (XINHUA)—The newly established Pudong Economic Development Area in Shanghai, China's leading industrial center, will have a combined telephone capacity of 110,000 lines by the end of 1995.

Covering 350 square kilometers, the area was approved early this year to enjoy some of the preferential policies for the special economic zones.

An official of the Shanghai administration of posts and telecommunications said, every 100 households in the Pudong area will have 9.16 telephones in 1995, the same as those in downtown districts.



With the development of telecommunications, there will be 25 phones per every 100 households in the year 2000 and 40 phones in 2020.

In addition to installing conventional telephone equipment, the official said, the Pudong area will build a ground satellite communication station and radio facilities.

The area is scheduled to construct a dock for postal transport to alleviate the tension of mail delivery.

## TRANSPORTATION

### Investment Increases in Transportation Sector

OW3008083490 Beijing XINHUA in English  
0753 GMT 30 Aug 90

[Text] Beijing, August 30 (XINHUA)—Despite the ongoing austerity drive, China's transport infrastructure construction increased its momentum this year, with construction of major highway, railway, waterway and civil aviation projects well underway, XINHUA has learned.

This is due to an increase in state investment as a result of structural readjustment of industries, which aims at giving a shot in the arm to such infrastructure sectors as transportation, raw materials and telecommunications.

This year China plans to pump a total of 13 billion yuan into transport infrastructure construction, a rise of two billion yuan compared with last year's amount.

According to the Ministry of Communications, the 375 km Shenyang-Dalian expressway, the longest of this kind in China, was completed recently and will be opened to traffic September 1.

Meanwhile, construction of the northern Xinjiang railway is nearing completion, and it is expected to form the last link in the "new Eurasian bridge" September 12, according to the Ministry of Railways.

Along China's 18,000-odd km coastline, a massive port construction program will add 30 new deepwater berths and 20 medium-sized docks to China's port throughput network by the end of this year.

In 1990 some 962 km of railway lines will be electrified, 296 km of double-tracking and 290 km new lines are expected to be completed.

The going into operation of over 10,000 km of new highways at the end of this year will bring the total length of China's highways up to 1.01 million km.

Meanwhile, this year four new airports—at Xianyang, Wenzhou, Xining and Xishuangbanna—will be completed and put into use, sources from the Civil Aviation Administration of China told XINHUA.

## PRC MEDIA ON FOREIGN ECONOMIES

### Pudong Developers Can Learn From Singapore

90CE0403A Shanghai JIEFANG RIBAO in Chinese  
15, 16 Jul 90

[Article by Wang Zhan (3769 2069) and Bo Deshan (2672 1795 1472): "Singapore's Economic Development Can Be the Inspiration for the Opening Up of Pudong"]

[15 July 1990 p. 8]

[Text] What kind of model should the Pudong development project be based upon? We feel that the free market economic model of Hong Kong cannot be adopted because that would not be compatible with the program of improvement and rectification or the efforts to stabilize the nation's and Shanghai's economy. Neither should we simply copy the Shenzhen model, because we could never set up a barrier to keep people out, as has been done in Shenzhen. Pudong should be a new district that has close relations with the older part of the city, and it should be administered by the municipal government. The Pudong development project should adopt the Singapore model, in which government regulation and control is organically combined with an open economy, and renovation of the older part of the city is spurred by development of the new district. There is much to be learned from this example.

### I. Method of Economic Regulation and Control Used by the Singapore Government—Holding Companies

An important method used by the Singapore government to regulate the economy has been to set up holding companies.

Prior to 1974, the government (mainly the Ministry of Finance and the Bureau of Economic Development) made many investments, and in order to facilitate management and control of these investments, it set up the Tamasek Holding Company, in which the government holds 100 percent of the equity. The purpose of the Tamasek Holding Company is to act as the government's agent in making long-term investments in order to support the government's long-term policies. At the same time, the company works to assure the feasibility and profitability of the government's investments, which it controls and supervises. As the economy has developed, the government has set up other holding companies to exercise effective management of various other industries. At present, the government has four main holding companies. In addition to Tamasek Holding Company, which is under the Ministry of Finance, there is the Victory Holding Company under the Ministry of Defense, the Ministry of National Development Holding Company under the Ministry of National Development, and the Singapore Public Health Holding Company under the Ministry of Health. These four holding companies control government enterprises which produce 70 percent of the gross domestic product.

Government supervision of the holding companies is based on two principles. The first is the market economy principle. The government lets the companies run their own affairs. The government does not directly run any enterprise and does not interfere with normal enterprise business activities. Second, the government works to promote national economic development. Company profits are mainly used to expand operations and develop the company. Only a small part is symbolically handed over to the government in the form of dividends. The state mainly collects various types of taxes from the company. Government holding companies do not enjoy any special privileges, but compete with other enterprises on an equal basis. Government supervision of the holding companies is mainly exercised by oversight of personnel matters. All holding companies have a board of directors. The chairman of the board or the executive director and most of the directors are appointed by the state—a government "director appointment committee." The president of the company is elected by the board of directors. The company's major policies and programs are decided by the board of directors, while the president takes sole responsibility for daily business activities. The objectives of the government are achieved in everyday business activities via the resolutions of the board of directors, and major business programs and decisions of the company are reported to the government by members of the board of directors.

The holding company functions in the following manner: The major policies of the holding company and its subsidiaries are decided by the company's board of directors. The company implements a system in which the president, while under the board of directors, takes responsibility for the company's welfare. The company has few personnel, but they are all very capable. Their ranks are composed of a few top executives and high-level management personnel. One or two persons are responsible for maintaining contact with a few subsidiaries within a particular industry. A holding company must seek profits and consider the government's industrial policy as well. In order to insure the profitability of investments, the holding company and its subsidiaries all have autonomy to decide where to invest.

There are two reasons why the government uses stock ownership rather than fiscal appropriations to invest in and set up government holding companies. First, there is flexibility. The government can buy more shares to provide funds to leading industries which are in urgent need of development. On the other hand, the government can retire stock to restrict enterprises, or to produce them to reorganize or change their product lines. Second, this system allows the government to exercise a high degree of control over certain industries, or just a little. In the case of industries which have a vital impact upon the nation's economy, the government can buy all or a great part of the stock. With more marginal industries, the government can hold a smaller portion of stock and add or retire stock in response to changes on the international market. In short, the holding company is

an important tool which the government uses to achieve the goals of its industrial policy and to guide enterprise development.

## II. A Very Unique Mechanism for Regulation of the Economy—the Central Provident Fund

Singapore established the Central Provident Fund in 1955. The Central Provident Fund is a type of compulsory savings plan to which employers and employees must all contribute. The Central Provident Fund has several programs, including housing [ju zhe you qi wu 1446 5074 2589 0336 1450], social security [guo min bao zhang 0948 3046 0202 7140], and retirement [an xiang wan nian 1344 0078 2519 1628]. Under these programs, contributors to the fund enjoy various benefits. For example, under the special house purchasing plan, a contributor to the fund can tap the Central Provident Fund to buy government housing built by the Housing Development Board. Under the special housing industry plan, contributors to the fund can tap it to buy companies which build private housing. Under the family social security plan, if a contributor to the fund passes away or becomes permanently disabled, the unpaid balance of any home loan will be repaid in installments by the Central Provident Fund. Under the medicine and health plan, contributors can use the fund to pay for medical and health expenses. Under the investment plan, contributors can even use the Central Provident Fund to buy gold, stock, etc. In addition, after a contributor has reached retirement age (55) or has become permanently disabled, he or she can withdraw what has been deposited in the Central Provident Fund (but those who resign their jobs early or are unemployed cannot access the fund). If a contributor leaves Singapore permanently, he or she can withdraw money from the fund. Implementation of the Central Provident Fund has played several important roles. 1) It has provided funds for the development of the city's infrastructure. The Central Provident Fund uses the savings of its contributors to buy long-term government bonds, thereby supporting the government's efforts to develop the city's infrastructure and improve Singapore's investment climate. 2) It has spurred development of one of Singapore's four key industries—construction and construction-related industries. 3) It has effectively regulated the ratio between consumption and accumulation. The government has continually readjusted the size of the fund in response to changes in the ratio of consumption to accumulation. When the fund was first set up, employees paid 5 percent of their monthly salary, and employers also paid 5 percent of each employee's monthly salary. These percentages were readjusted several times beginning in the 1970's, reaching 25 percent at the highest point. Singapore's economy went into a recession in 1985. In order to help employers recover their economic strength, in 1986 the employee's contribution was adjusted to 24 percent and the employer's share to 12 percent. During the period when Singapore's economy was growing rapidly, prices remained stable although

interest rates, exchange rates, and prices were uncontrolled (price fluctuations have been kept under 2 percent for a long time). The main reason for this was that the savings ratio for the Central Provident Fund served as a thermostat. 4) It has successfully resolved the housing problem. The fund's house purchasing plan has enabled many people to buy regular housing or medium income apartments from the Housing Development Board with nothing other than their savings in the Central Provident Fund, and the plan has not forced the government to spend large sums of money on subsidies. 5) It has regulated consumption structure. Because the Central Provident Fund can only be used to buy residences, it has caused the bulk of residents' early consumption to shift toward residences, thereby effectively suppressing a tendency toward premature development of consumption of durable electronics and luxury goods.

### III. Municipal and Housing Construction in Singapore

In 1959, the Singapore government formulated its "Social and Economic Development Policy," part of which dealt with the issue of urban renewal. The plan called for a readjustment of chaotic urban land use as the national economy developed. At the same time that sufficient land was set aside for the construction of public housing, an appropriate amount of land was set aside to provide for urban development. While taking economic development as the main principle, the plan gave full consideration to the need to develop tertiary industry, and work on urban renewal and development was carried out step by step. By leasing land in large blocks, Singapore achieved its plans for urban renewal and development. The Urban Renewal Bureau divided the zones in need of renewal and development into twelve different districts on the basis of the amount of economic returns generated in each district. The government adopted a policy of renting out land in large blocks and chose a parcel of land in which differential rent was the highest, which it rented out to land developers. Once the land had been developed, it was rented to builders, who carried out construction projects. After the real estate in the first parcel of land had been developed in this manner and tertiary industries of a certain size had been moved in, tertiary industries in the second parcel of land slated for development were moved to the first parcel of land, and the second parcel, now empty, was developed in the same manner. The programs progressed in this manner from district to district until urban renewal and development was completed. In so doing, after 30 years of construction Singapore turned a small urban area of ten square kilometers into a modern city of 298 square kilometers. Apart from a small investment by the government, the funds for this urban construction mostly came from rental of land in large blocks and from urban development bonds that the Urban Renewal Bureau sold to the Central Provident Fund. Another aspect of Singapore's urban construction was its adoption of an urban development licensing system. It was stipulated that all construction and development activity had to be approved. The approval process primarily

involved an examination of whether the project in question was compatible with the overall plan, after which the project was reviewed by every relevant department before a decision on approval would be reached. The land from which Singapore draws its water has been ruled off limits to development in order to prevent pollution of drinking water. In districts not covered by the plan, land may only be used in the same manner as before. In addition, Singapore has set aside a certain amount of land for future development.

It has been the basic policy of Singapore to work to resolve housing problems, and it has used this policy to spur development of the construction and real estate industries. After 30 years of hard work, over 90 percent of all residents have moved into public housing. Singapore's success stems from the government's ability to bring into play the people's enthusiasm for buying homes and from its ability to resolve the housing problems of low-income residents. It has employed several methods.

1) At the same time that it has implemented compulsory savings, it has made employers contribute a dollar for every dollar deposited by employees, thereby ensuring the willingness of citizens to deposit savings in the Central Provident Fund. 2) The government, after selling housing to residents at below-market prices, has allowed them to resell five years later at market price 3) In determining the price of housing, the government has sold one- and two-bedroom homes below cost, three-bedroom homes at cost, and four- and five-bedroom homes above cost, thereby limiting the gap between rich and poor, reducing losses incurred by housing construction, and enabling large numbers of low-income residents to buy homes.

An important aspect of Singapore's housing construction has been the government's ability to establish healthy circulation of housing construction funds. The Singapore government established the Housing Development Board in 1960 to provide unified management of public housing construction. In accordance with the nation's laws and the principles of the commodity economy, the Housing Development board has set its own policy, maintained autonomy over its business activities, and taken responsibility for its own profits and losses. Its funds come from two sources. First, it gets funds from the government, which it uses solely for making housing construction and development loans, and for making home purchase loans. Second, it derives income from renting and selling homes. The government loans come from the Central Provident Fund and the Post Office Savings Bank. Prices for housing rentals and sales are set by the government and are below market price. The deficit thus caused is determined by the government, which then gives the bureau certain subsidies to make up for it. The funds for the subsidies come from large block land rental.

[16 July 1990 p. 5]

[Text] IV. Effective Regulation of the Financial Industry by the Singapore Government



In order to vigorously develop the financial industry and to enable financial institutions to play a role in economic development, the Singapore government has adopted a series of aggressive measures. 1) In January 1971, the Monetary Authority of Singapore was established. Its function is equivalent to that of a central bank (except that it cannot issue currency). Its major task is to respond to continually changing conditions by formulating policies that encourage development of the financial industry and the entry of foreign-invested banks. 2) In January 1972, the government announced that the Post Office Savings Bank was legally designated as a financial institution, enabling this bank to achieve rapid development and raise a large quantity of funds for the state. 3) In April 1973, after the Monetary Authority of Singapore approved the establishment of foreign exchange banks, the development of a market for the Asian dollar was further promoted. 4) Foreign exchange controls were gradually relaxed, and they were completely eliminated in June 1978. 5) The government has adopted various measures to encourage banking activities and stimulate the development of banking instruments. At the same time, the government has relaxed or eliminated several restrictive measures and has encouraged normal competition between different banking institutions. 6) By using national capital and its various organs, the government has aggressively participated in financial markets. Because the government has adopted a series of aggressive measures, and because of over 30 years of political and economic stability in Singapore, economic development has been rapid, and the economies of nearby areas have also developed relatively quickly. For this reason, Singapore has become one of the financial centers of the world.

Among all the banking institutions in Singapore, commercial banks play the most important role. Among the commercial banks in Singapore, the great majority are foreign (there are over 100). Singapore brought in foreign banks yet prevented its own banks from losing out in the competition by issuing different types of licenses to control business activities. Prior to 1971, the banking laws allowed all banks, whether domestic or foreign, to get licenses which allowed participation in the entire gamut of banking activities. In order to expand banking activities and bring in foreign banks (especially multinational banks with broad international contacts), the government established commercial banks in 1971 with licenses that allowed participation in only a limited range of banking activities. These banks cannot set up subsidiaries in Singapore. It is stipulated that they can accept no deposit smaller than S\$250,000, and that they cannot accept savings accounts. In order to spur development of Asian dollar business, the government brought in a third category of banks in 1973—foreign exchange banks (also known as "offshore banks") with foreign exchange banking licenses. Banks of this type are not allowed to set up subsidiaries in Singapore. They are only allowed to deal in such offshore business as the Asian dollar, foreign exchange trading, foreign exchange deposits, and international investments.

The development of banking has raised a lot of funds for domestic economic development and provided various financial services for economic activity in Southeast Asia and even the entire Asia Pacific region. More importantly, the influx of large numbers of foreign banks has prompted many multinational companies to invest directly in Singapore, turning Singapore into the Far Eastern headquarters of many multinational companies. This development solidified Singapore's position as the economic center of Southeast Asia.

#### V. Construction and Management of Singapore's Industrial Processing Zones

The Singapore government attaches great importance to the development of infrastructure. In the early stages of industrialization, the government targeted 90 percent of its expenditures on the construction of energy, transportation, and communication infrastructure. In 1972, the government formulated the "Five-Year Plan for Public Works," during which time S\$25 billion were appropriated for the development and construction of public utilities. Since the late 1970's, the government has specially earmarked funds for airport and subway construction, creating an excellent investment climate for domestic and foreign investors.

An important method used by the Singapore government to develop infrastructure has been to build industrial processing zones. In order to carry out its industrial development plan, the government opened up 30 industrial processing zones of varying sizes, the largest of which is the Jurong Industrial Processing Zone. In order to ensure smooth progress in the construction of the industrial processing zones, the Singapore government implemented a strong and effective land seizure system. It put into law that the government or any government-designated organ running a public utility could carry out compulsory seizure of private land. By means of this system, much privately owned land became state-owned or publicly owned. The more than 30 industrial processing zones were put under the managerial jurisdiction of the Jurong Town Corporation, which is a legally sanctioned government agency. On the one hand, it has a specific function which was conferred upon it by the government. It is the only agency involved in the development of industrial-use land and infrastructure. On the other hand, it is also an enterprise which runs its business in the manner of all enterprises. The funds needed for its development come mainly from loans, including loans from the government and various banking institutions. It derives income by selling and by collecting rents. The expenses connected with infrastructure development are recouped by renting out factories and land. The Jurong Town Corporation is responsible for providing the following types of infrastructure and services: land, warehouses, and various types of modern storage facilities for various types of economic activity; industrial water, electricity, and natural gas; modern communications services, etc.

#### VI. What Pudong's Developers Can Learn From Singapore About Economic Development

The development of Pudong will face a series of new problems, including how to handle relations between Pudong and Puxi, the structure and distribution of industry in Pudong, how to raise funds for the development of Pudong, and especially, how to raise the degree of development in Pudong while ensuring that Puxi will fulfill its fiscal contract quotas. Singapore's development experience offers us the following lessons as we prepare to resolve the problems just listed:

1. We should set up holding companies at the municipal level, and exercise regulation and control of industrial structure and distribution in Pudong. The municipal government's holding companies could be formed by reorganizing (?permanent companies), (?temporary companies), (?reinvestment companies), or industrial funds. Their function would be to exercise regulation and control over the entire municipality's industrial policy, thereby ensuring a mutually beneficial relationship between the industrial structure of Pudong and that of Puxi, and ensuring that the renovation of the old parts of the city will dovetail with the development of Pudong's industrial structure. As for the actual manner of operating the holding companies, we could learn from the way Singapore has handled its holding companies.

2. By implementing a central public fund in the mold of Singapore's Central Provident Fund on an experimental basis, we could gradually establish a unique mechanism of economic regulation and control to exercise comprehensive regulation and control over Pudong and Puxi. We could consider first implementing a public fund system throughout Pudong. Taking into account the possible effects wrought upon Puxi by higher wages and prices in Pudong, we could set higher public fund deposit ratios for Pudong. This would control the impact upon Puxi, and it would also stimulate the commercialization of housing in Pudong and the socialization of social services for workers and staff in enterprises there. Public fund deposits would become a major source of funds for urban construction. The municipal government could wait for the appropriate opportunity to implement the public fund system in Puxi, and it could regulate and control price fluctuations and the flow of production factors between Pudong and Puxi by setting different public fund deposit ratios in Pudong and Puxi.

3. We should establish a Pudong Management Bureau to exercise unified control over all of the municipality's development districts. Using Singapore's Jurong Town Corporation as our model, we could set up a management bureau in Pudong. Apart from its responsibility for affairs related to the development of Pudong, it would also manage the Hongqiao, Caohejing, and Minhang development districts in Puxi. In this manner, we could coordinate the development of the outwardly oriented economics of Pudong and Puxi. We would avoid favoring Pudong and neglecting Puxi, and would prevent the development of Pudong from having an adverse

impact upon Puxi. In order to prevent the traditional system from interfering improperly in the development of Pudong, the Pudong Management Bureau could set up a board of directors, just as was done by the Jurong Town Corporation. The board of directors would include government officials as well as foreign experts and businessmen. Participation by foreign experts and businessmen on the board of directors would serve as a warning not to allow improper interference by the traditional system.

4. Pudong's developers can learn from Singapore's regulation and control of banking. Doing so would enable them to expand the presence of foreign capital in Pudong while they protect domestic banking. If foreign banks are brought into Pudong, we cannot completely open up all banking activities or domestic banks could not possibly withstand the competition. However, we cannot set up too many restrictions and scare foreign banks away. It would be more beneficial to set up a banking and trade development zone in the Lujiazui area, and to provide foreign banks two openings. One would be to allow them to open branches in Pudong and to permit them to provide any and all financial services connected with the development of Pudong. They should be allowed to accept deposits from all of the more than 10,000 foreign-invested enterprises (FIEs) throughout China. The foreign banks should also be allowed to take deposits in renminbi from FIE's and make them foreign exchange loans, or take foreign exchange deposits and make renminbi loans. The other opening would be to allow foreign banks in Pudong to set up branches in other port cities or development zones as operations require. Domestic banking institutions could also take deposits from and make loans to FIE's, but foreign banks should not be allowed to take deposits from any enterprise other than an FIE. Bringing in foreign banks would help us to attract investments from many small and medium-size foreign enterprises. It would also help multinational corporations to use the intermediary function of foreign banks in Pudong to set up more FIE's throughout China, enabling Pudong to become the economic headquarters in China of multinational corporations and comprehensive commercial organizations. This would be a very significant step in Shanghai's effort to recover its status as the economic center of the nation, and as one of the economic centers of the Asia Pacific region.

5. We could borrow Singapore's method of block land rentals to promote renovation of the older part of Shanghai and construction of the new part. We propose that the Huangpu District, where differential rents are the highest, be renovated first. We need to move buildings, factories, and people to new locations, and clear out this golden area to make room for the development of FIE's. This should be carried out in coordination with the development of Pudong in order to spur the rental of land in Pudong.

## AGRICULTURE

### Small Nitrogenous Fertilizer Sales Plummet

90CE0477B Wuhan JINGJI XINXIBAO in Chinese  
22 Jul 90 p 2

[Article by He Jinfu (0149 6855 4395): "Why Henan's Chemical Fertilizer Market Should Flourish But Does Not"]

[Text] This should be the brisk season for chemical fertilizer sales, but in Henan Province, which produces and uses large amounts of fertilizer, an abnormal situation has occurred of slack sales in the chemical fertilizer industry, fertilizer piling up in business warehouses. This is particularly true of small chemical plant sales of nitrogenous fertilizer, which are far worse in 1990 than during the nationwide slack sales of 1981 and 1985.

Statistics for the period January through May show an overstocking of a total of 2,518,900 tons of chemical fertilizer (standard fertilizer, and the same applies hereinafter) in industry and business. This amounts to five months production of the entire province's chemical fertilizer industry. During 1990, the chemical fertilizer industry plans to produce 6.9422 million tons of chemical fertilizer. Of this amount, 2.5422 million tons were produced and 2.02 million tons were sold from January through May. This leaves 525,300 tons remaining in inventory, and another estimated 4.4 million tons of chemical fertilizer is to be produced between June and December. By the end of the year, Henan Province will be able to supply 6.9189 million tons of chemical fertilizer. After deducting an estimated 850 tons needed to grow wheat after May, by the end of the year the province will have 3.4189 million tons of chemical fertilizer in inventory.

Since the market slump of 1989, the chemical fertilizer market has been unusually calm. But now when market sales are on the way up again and the brisk season for chemical fertilizer sales is at hand, sales are slack. We decided to take a look at the ins and outs of brisk sales and slack sales of chemical fertilizer during 1981 and 1985 respectively. It was not difficult to find a pattern. Following survey and analysis, we found the following main reasons:

**Related policies.** Every time there is a chemical fertilizer shortage and supply cannot meet demand, every level of government from the central government to local governments become extremely concerned about macroeconomic regulation and control of chemical fertilizer production to stabilize the chemical fertilizer market. But once the chemical fertilizer situation begins to look up, implementation of the foregoing measures is relaxed; macroeconomic regulation and control of the importation of chemical fertilizer is relaxed, and monopoly direct supply becomes a mere formality. Alternatively, during the busy season there is a "monopoly," and during the slack season there is "direct supply" causing a clogging of marketing channels. Take Henan Province,

for example, At first, the provincial authorities would not authorize the shipment of chemical fertilizer outside the province. Later on, they permitted it, but the season for using the fertilizer was already past, so they lost customers. In addition, getting authorization for freight cars to leave the province encountered many obstacles causing extraordinary difficulties for producing plants.

**Failure to implement monopoly direct supply measures clogged marketing channels.** State Council policies on monopoly direct supply of chemical fertilizer played an outstanding role, no doubt, in straightening out the chemical fertilizer market, stabilizing fertilizer prices, and accommodating the peasants in purchasing fertilizer. However, because of the prevalent practice of practicing "monopoly" in the busy season, and providing "direct supply" in the slack season, special operating funds were not available, businesses could not provide loans, and industries could not make sales. This caused blockages in the commodity flow links that hurt chemical fertilizer sales.

**A shift in peasants' preferences in purchasing chemical fertilizer toward high potency fertilizer caused a weakening of small chemical fertilizer plant sales of nitrogenous fertilizer.** When premium quality fertilizer is in short supply, nitrogenous fertilizer from small plants plays its intended role, but when there is no real shortage of chemical fertilizer, the peasants become aware that they have a choice in making purchases where market supplies are plentiful. In today's situation of a general overstocking of nitrogenous fertilizer, and when imported ammonium dihydrogen phosphate, urea, and phosphoric nitrate from outside the province enjoy ready sales in Henan's chemical fertilizer markets, they have dislodged the market position of nitrogenous fertilizer from small fertilizer plants.

**The relentless rise in the cost of chemical fertilizer is one important reason for the damage to chemical fertilizer sales.** The skyrocketing rise in prices of raw and processed materials, and the rather serious shortage of raw materials supplied for chemical fertilizer production have increased costs. Small nitrogenous fertilizer plants cannot lower prices further, so in view of the small difference in price between premium fertilizer and nitrogenous fertilizer from small plants, the competitiveness of small nitrogenous fertilizer plants is bound to be hurt.

**Uncertainties about responsibility fields adversely affect peasant investment in the land.** With increases here and decreases there in population in recent years and the need to organize intensive production, some places have redistributed the land, and in some places the peasants have heard that the village plans a "two field system" in 1990. By this is meant that part of the land that the peasants contract will be for the growing of their personal grain rationed, and part will be for the growing of grain to be delivered to the state. The peasants do not know where matters stand concerning the redesignation



and reapportionment of land. This has increased their worries and they are unwilling to buy fertilizers to feed the land.

Chemical fertilizer is an important resource in agricultural production, and the chemical fertilizer industry is an important industry in the national economy. Protecting and developing the country's chemical fertilizer industry, particularly small plant nitrogenous fertilizer production, is of profound and far-reaching significance. Faced with another shrinking of the chemical fertilizer market, we should strengthen protection of the chemical fertilizer industry, adopt a supportive attitude, and do all possible to remove worries and solve problems in small plant nitrogenous fertilizer production in order to get through this difficulty. Remedies and suggestions are as follows:

**Solve the current conflict between small plant nitrogenous fertilizer production and overstocking.** During the busy season for fertilizer sales, banks should continue to provide the funds needed for chemical fertilizer production. When the slack season in fertilizer sales arrives, people's banks in all prefectures and cities should take the lead in effective coordination. Agriculture Bank means of production supply departments should purchase chemical fertilizer using low interest loans, and production plants should sell at the minimum price. During the slack season fertilizer storage period, government financial units in all prefectures and cities should subsidize means of production units' bank interest payments in installments. Although this entails a certain amount of risk, it protects the chemical fertilizer industry.

**Moderate imports and timely shipments to other provinces.** When chemical fertilizer sales lag, it is normal for peasants to be more choosy in purchasing chemical fertilizer, so if protection of small nitrogenous fertilizer production plans is our goal, restriction of imports is extremely necessary. In addition, since different parts of the country use chemical fertilizer at different times of the year, it is even more important that timely shipments of chemical fertilizer outside the province be permitted. Insofar as policies permit, we should simplify procedures to accommodate production plans as an effective way in which to support the chemical fertilizer industry.

**Good performance in doretailing the planned economy and market regulation.** A direct correlation exists between slack sales of small producing plant's nitrogenous fertilizer, and the relentless rise in costs, the fundamental reason being imbalance between plan supply and market regulation. Therefore, it is recommended that governments at all levels take rescue actions at once to readjust chemical fertilizer industry raw and processed materials supply plans as a means of reducing their burdens and increasing the competitiveness of nitrogenous fertilizer from small plants.

It is suggested that governments at all levels organize their finance committee, government finance department, chemical industry bureau, people's, industrial, and agricultural banks, and agricultural resources departments form a joint study of local chemical fertilizer production and sales problems. They should perfect their chemical fertilizer monopoly measures, coordinate industry with business, decide the funds to be provided for slack season chemical fertilizer storage, procurement methods, and subsidy policies as a means of creating a relatively relaxed climate for chemical fertilizer production and sales.

**'Official Irresponsibility' Blamed for Disorder**

90CM03344 Shanghai SHEHUI [SOCIETY]  
in Chinese No. 64, 20 Jun 90 pp. 27-28

[Article by Zhu Zhengxin (2612 2398 2450): "'Official Irresponsibility' Must Be Eliminated Before 'Civil Disorder' Can Be Controlled"]

[Text] What is the PRC's current "national disease?" In a word, it is "irresponsibility or disorder." Although it is a fact that there are plenty of people in our society who work hard, progress industriously, share the country's cares and burdens, serve the people, and are the pillars of our country and the backbone of our nation, it is also a reality, and one which cannot be ignored, that there are also many who are muddleheaded, careless, idle, and irresponsible. It is certainly not overstating the case to say that "irresponsibility" has become an epidemic which has spread to all areas, levels, and corners of our society. It is particularly alarming that "irresponsible" habits have permeated all age groups, and it is terrifying that even young people in their prime are also so glibly "irresponsible."

A certain unit has a couplet on vertical scrolls flanking its door that says "Irresponsibility exists on upper, intermediate, and lower levels. Irresponsibility exists in you, me, and among everyone," with a horizontal scroll hung over the door saying "Purposeless Irresponsibility." Although I did not investigate the degree to which "purposeless irresponsibility" had permeated all of the personnel in this unit, I was able to infer that it is irresponsibility on the "upper level" that causes it on the "intermediate level," the "lower level," and also "among everyone." Obviously, irresponsibility must be eliminated on the "upper level" before it can be controlled on the "lower" and "intermediate" levels. If this "irresponsibility" is categorized roughly as "civil disorder" and "official irresponsibility" (these terms are certainly not precise, but are used merely to facilitate the discussion in this article), then "official irresponsibility" must be eliminated before "civil disorder" can be controlled.

So-called "official irresponsibility" is "irresponsibility" among certain "officials." Summing it up roughly, "official irresponsibility" is manifested in the following ways:

**Performing Duties Perfunctorily for the Higher Authorities, and Going Through the Motions for the Masses:** This is a major manifestation of "official irresponsibility." Some responsible cadres feel responsible only toward the higher authorities, their immediate superiors in particular, but not toward the masses in their localities or departments. Their actions are aimed simply at ingratiating themselves with their bosses. This "responsibility" to the higher authorities is, in fact, a way to protect themselves so that they can continue their cushy jobs as "secure officials," and is certainly not professional responsibility. This "responsibility" is essentially performing their duties perfunctorily, and is the same as going through the motions for their subordinates. Although our leaders at all levels are theoretically

responsible not only to the higher authorities, but also to the people and, in the final analysis, only to the people, because we have not established sound democratic and legal institutions and the masses are unable to exercise effective supervision over their leaders, it is hard to put an end to this "official irresponsibility" of performing duties perfunctorily and going through the motions.

**Indiscriminate Imitation and Passing Down of Orders, and Sheer Inertia:** Certain leading cadres do not work creatively by proposing unique measures and methods for their localities and departments, which are guided by the line, principles, and policies of the higher authorities, the central government in particular, and combined with their actual conditions. Instead, they imitate and relay orders indiscriminately, act as if they were recording and duplicating machines, and simply pass down key orders mechanically, or feel that their job is done once they have relayed orders. This saves the most trouble and is a subtle way of being "irresponsible." They are usually not concerned about the effectiveness of such indiscriminate imitation and thoughtless passing down of orders. The inability of many good Central Committee and State Council principles and policies to strike root at the grassroots level is due to the evil influence of this kind of "official irresponsibility."

**Shifting Job Responsibility Onto Others and Muddling Along:** This is the most widespread and common manifestation of "official irresponsibility." Cadres who are guilty of this form of official irresponsibility do not give their all to the work within their jurisdiction, but rather muddle along by doing as little as they can get away with, often postponing work that could be done today until tomorrow, the day after, or even a month or two later. They actually waste whole mornings on problems that they clearly have the jurisdiction to solve by putting a few heads together, find it necessary to send official communications round in circles over matters which they could settle on the spot or by a single phone call, and often kick the ball to another department's court on issues that clearly should be resolved by their department. Much of the so-called "mountain of documents and sea of meetings" is an external manifestation of this kind of "irresponsibility." These cadres take no initiative and feel quite content to do nothing during their tenures.

**Seeking Personal Privileges and Pursuing Private Ends:** While having no heart for their work, some cadres are still good at taking advantage of their power to seek personal privileges, fatten themselves at public expense, and pursue private ends. They are often even so cocky as to call these actions, which undermine the state and infringe on the people's interests, "proper irresponsibility." In fact, this is the worst kind of "irresponsibility" because, while the above-mentioned kinds of "irresponsibility" cause only indirect damage, this kind creates direct mass "disorder." The saying, which has circulated widely in enterprises for some time, that "factory directors tour abroad, middle-level cadres travel in the PRC,

and workers wander around in the factory," is proof of this centrifugal force and image of "communal irresponsibility."

**Ignorance and Letting Things Slide:** Some cadres often turn a blind eye and take a laissez-faire attitude toward various things, such as unhealthy tendencies, evil practices, feudal superstitions, and bad habits, which do social harm and corrupt people's minds. Instead of being willing to proceed from the people's interests and make an effort to resolve these problems, they take an approach of "irresponsibly passing them over." Whenever their personal interests might be threatened by trying to settle these thorny issues in particular, they resolutely try to skirt them or sit on the fence, instead of really trying to resolve them. Although there are naturally many reasons for the current resurgence in many areas of various evils of the old society, one of them is the "irresponsibility" of some cadres. This "irresponsibility" causes not only the social atmosphere to deteriorate, but also the masses to lose confidence.

No further proof is necessary to illustrate how the above still incomplete manifestations of "official irresponsibility" inevitably cause "civil disorder." Various factors in China often cause our people to instinctively revere officials and they usually "suppress their rage" about "official irresponsibility." However, when they are allowed no outlet for their heartfelt resentment against "official irresponsibility," when they are no longer able to continue to protest silently, when their demands for consideration of their vital interests are stalled and their rational demands are long ignored, and when they are unable to express their views and demands or have them redressed through normal channels, they will resort to a simple and feasible method in keeping with their mass mentality, that is, "disorder"! This method seems to be logically coherent as follows: Since I am unable to discharge my grievances, my words are of little consequence, and there is no place where I can speak up, is not "disorder" an inevitable likelihood? Although there are admittedly many reasons for "civil disorder," such as social, historical, and ideological factors, defects in current policies, and even the lack of individual character among the members of society, which, because of temporal, local, and personal differences, cannot be lumped together, the existence of "official irresponsibility" must be seen as a key factor in the increasing intensity of "civil disorder."

This is precisely why it is necessary to eliminate "official irresponsibility" first, before the atmosphere, which is full of the inert gas of "disorder," can be cleaned up. Of course, eliminating "official irresponsibility" will be difficult not only because "irresponsible officials" hold power, but also because the effects of our over 2,000 years of feudal history and harmful traditions will not disappear even with a basic modification of our social system. Officials in feudal society were responsible only to the emperor, which produced a whole set of studies in official circles on "irresponsibility." The higher the official, the more likely he was to be irresponsible. The

great Qing dynasty bureaucrat Li Hongzhang [2621 7703 4545] made the famous remark that "being an official is the easiest thing in the world." This was both his personal experience, and also an illustration of the fact that most government officials in the past (except for a few "honest ones") were "irresponsible." Although our party works basically for the interests of the proletariat and the masses, this general environmental background has unavoidably corrupted, invaded, and caused us a certain amount of official "irresponsibility." Even though only some of our officials are irresponsible, their position in the ruling party has given their irresponsibility an enormous impact on our whole society.

Our state and nation can no longer tolerate "irresponsibility." Domestic troubles and foreign invasions in the over 100 years since the Opium War have lost us the chance to rank among the powerful and prosperous nations of the world. The mistakes that we have made in the more than four decades since the founding of the PRC have also lost us much time. If we do not eliminate our "irresponsible" habits, there will be no hope for our state and nation. In order to effectively eliminate "official irresponsibility" we will have to find an overall cure for our general environmental background. In addition to creating powerful propaganda, shoring up public opinion, and conducting a propaganda campaign among cadres at all levels to enhance their contacts with the masses, induce them to voluntarily put themselves under the supervision of the masses, and be conscientious "public servants," we must also do a better job of building socialist democracy and legal institutions and carrying out political reforms. We should now formulate realistic and serviceable provisions, regulations, or laws to assess the actual achievements of leading cadres, make leading organs conscientiously responsible to the masses, open up means of communication to make the situation at the lower levels known to the higher levels, and put honest government by officials at all levels under legal and mass supervision. Only in this way will we be able to gradually eradicate and eliminate the existence of "official irresponsibility," and stand a chance of controlling "civil disorder" and cleaning up the atmosphere of "irresponsibility."

#### Characteristics of Larceny Described

90CM0322A Beijing FAZHI RIBAO in Chinese  
16 Jul 90 p 3

[Article by Jin Yan (2516 6056): "Characteristics of Present-Day Larceny"]

[Text] Following the rise in peoples' living standards and the stimulation of the commodity economy, there has been a steady increase in the craving of criminal elements for state and personal property. For this reason, in comparing present-day larceny with that of the past, we see that a profound change has occurred and some new characteristics have emerged:

From the point of view of committing crimes, criminal elements first choose the dormitories of institutions,



organizations and enterprises. They choose medium- and small-sized units second, and individual households and the management sites of some economic associations third. In order to study present-day larceny, the author investigated 250 larceny cases. Results indicated that 163 of the cases occurred in unit staff dormitories of institutions, organizations, and enterprises, which was equal to 65.2 percent of the total number of cases examined; 48 cases, or 19.5 percent, occurred in medium- and small-sized units; and 35 cases, or 14 percent, occurred in individual households and in management sites of some economic associations. Only four cases occurred in other places.

As for the immediate objects of larceny, the primary ones are cash, expensive durable consumer goods, and raw and semifinished industrial materials. Cunning criminal elements seize on cash because of its desirability, ease of concealment, and difficulty to trace, and increasingly stretch their tentacles out for currency. In the last several years, there have been more and more cases of larceny involving such items as color televisions, video cassette recorders, and hifi systems, because of their high price and high social utility. Most raw and semifinished industrial materials are handled outdoors, and thus criminal elements have easy access to them. For this reason, they are increasingly becoming the targets of criminals. Of the 250 larceny cases investigated, 209 cases, or 83.6 percent, involved criminal elements targeting cash and expensive durable consumer goods such as color televisions, video cassette recorders, and hifi systems. In addition, 39 cases, or 14 percent, targeted raw and semifinished industrial materials, while only 5 cases involved thefts of other items.

Criminal gangs are another characteristic of present-day larceny. According to the investigation of the 250 larceny cases, 113 of the cases, or 45.2 percent, involved crimes committed by criminal gangs. These criminal gangs typically have a well-defined division of labor, with some criminals specializing in theft, some handling transportation of stolen goods, and some dividing up the work of selling the stolen goods. They coordinate the process of stealing, transporting, and selling stolen goods, have a rapid turnaround time, and are extremely harmful. When committing a crime, they divide up the tasks and work in a tightly organized fashion. Some criminal gangs even go through certain rituals and form factions. For example, before committing a crime, a seven-member criminal gang headed by Cai Donggong [5591 2639 1362] and a 12-member gang headed by Shan Dongwei [0830 2639 5898] drank wine and took oaths, becoming sworn brothers. This has the aura of a "secret society," and is very harmful.

Another prominent characteristic of present-day larceny is the move towards intelligent and able criminals. The investigation indicated that, following scientific and technological development and an increase in education levels, the crimes committed by some criminal elements showed that criminals were becoming more intelligent

and able. This is prominently manifested in premeditated crimes where a crime is committed and, after it has been successful, the scene of the crime is destroyed. On 29 November 1989, two days before they planned to commit a crime in the evening, criminals Fang Shanchun [2455 1472 2504] and Lu Siqi [6424 1835 1142] walked more than 20 li to reach the Fenghua Store to inspect the terrain, the target of the crime, and closely survey the layout of the site, the target, and the road. Around 0200 they successfully committed the crime, taking advantage of the fact that the staff on duty was asleep. A second characteristic is that some criminal elements make use of modern communications equipment, carry out long-range raids, and commit successive crimes, which creates great difficulties for public security organs trying to solve the cases. A third characteristic is that some criminal elements collaborate with thoroughly degenerate individuals in the financial system, stealing the "sealed deposits" of banks and engaging in computer crime, thereby creating tremendous economic losses for the country and people.

In addition, looking at the makeup of those committing crimes, we see that the proportion of peasants committing crimes has clearly increased substantially. In the last few years peasants have begun noticing others' wealth, and suffer from "red eye disease." Yet they are fond of leisure and abhor labor, they have fields but do no planting, and instead wish to become affluent through stealing. There are also some peasants who hear that it is easy to reap ill-gotten gains in the city. These people blindly drift into cities, cannot find work quickly, and are unwilling to return to their home villages to be farmers; they then turn to a life of crime for their livelihood.

### Activities of Robbers on Chang Jiang

90CM0322B Beijing FAZHI RIBAO in Chinese  
9 Jul 90 p 3

[Article by Deng Jianqiao (6772 1696 2890): "An Account of the Present Robbery Situation on the Chang Jiang and Measures To Bring It Under Control"]

[Excerpt] The author believes that robbery on the Jiang (the traditional name of the Chang Jiang) primarily refers to people involved in gang lootings, robberies of materials transported by barge on the Chang Jiang, or robberies of shipboard equipment. They include criminal elements in society as well as crew members on Chang Jiang barges.

At present, robberies on the Chang Jiang, such as gang lootings and robberies of goods transported by barges and of barges' production equipment, are extremely rampant and not only cause tremendous losses in terms of state property and barge transport production, but also seriously threaten both the safety and lives of crew members and the safety of shipping navigation. The influence and harm of these robberies is increasingly serious, and it has already become a prominent problem in terms of threatening the public safety and order of

port navigation. Take the 85 robbery cases on the Chang Jiang which occurred within the jurisdiction of the Wuhan Branch Office of Chang Jiang Shipping's Public Security Bureau; in 1988 the number of cases involving river robberies increased 2.4 fold over 1987 levels, and in 1989 there was a 54 percent increase in the number of cases as compared to 1988.

After conducting an investigative analysis on Chang Jiang robbery cases, the author believes that the current Chang Jiang robbery activity has the following major characteristics:

1. Mass robbery, which has a frenzied nature. Barges on the river disperse and drop anchor, and normally there are only two or three crewmen on the boat, surrounded by "water on five sides and sky on the other." In addition, they are far from city piers, have no mobility, and contact with the outside is inconvenient. If criminal elements board the ship and commit a crime, the barge is in a vulnerable and weak situation, and is isolated and cut off from help. Currently some criminal elements have grasped this fact about barges along the Chang Jiang. They often gather in wooden rowboats and attack a barge in groups of as few as four or five men, or as many as several dozen men. Relying on their overwhelming numbers, they completely encircle the barge and rush headlong aboard, overtly and covertly robbing and stealing, doing whatever they please, and wantonly committing crimes. According to statistics from the investigation, out of 85 "Chang Jiang robbery" cases, 25, or 29.4 percent, involved criminals banding together to steal barges' goods and materials.

2. Collaboration between insiders and outsiders, which has a hidden nature. The overwhelming majority of the robbery cases currently occurring on the Chang Jiang involve barge crew members in some way. Take the 50 robbery cases which occurred in 1989, for example: 37 cases, or 74 percent of the total number, involved collusion between criminal elements in the society and crew members, and the formation of partnerships for stealing and transporting goods and materials. Uncovering inside and outside thieves colluding, collaborating, and forming partnerships in crime is very difficult. The characteristics of their covert activities are relatively clear. First, there is the preparation, planning, and division of labor in committing the crime. The inside thieves set the time of the crime, control how much goods and materials will be stolen, and supply information on which cargo hold to rob and how to rob it. Based on this, the outside thieves carry out the robbery and dispose of the stolen goods, and the whole criminal process is covertly carried through a well-conceived plan. Second, the injured party (the owner of the cargo), although sensing the cargo is light, is incapable of doing an inspection, and thus nobody reports the case.

3. The criminal body has a limited nature. Robbers on the Chang Jiang carrying out wanton criminal activities on barges form a rather special colony. Though their numbers are gradually increasing, they are restricted by

the natural environment of the Chang Jiang. Thus, when criminal elements commit a crime, they must have the necessary communications and transport tools, such as small-scale transport vessels or individual fishing "rowboats," in order to carry out their criminal activities. Otherwise, it is both impossible to board the barges to commit the crime and impossible to transport the stolen goods. Thus it is evident that the main criminal body is restricted by the natural environment and has a definite limited nature. Others committing crimes must also have the aid of water transport equipment.

4. The pursuit of goods has a multifaceted nature. In the past, criminals committing crimes on barges typically only stole or seized small amounts of daily goods, and the types of goods were also quite uniform. In recent years, following an "escalation" in the activity of Chang Jiang robbers, the variety of the targets seized by the robbers has steadily increased. The appetite of criminals has steadily grown to include various types of industrial goods and materials transported by barge and barge facilities, in addition to daily goods on board barges.

5. The means of committing crimes vary. Briefly, the means used in the cases investigated may be divided into the three categories below: A. Profiteering. If crew members succumb to the lure of money, see only their own benefit, and forget what is right, they will agree to give the goods and materials on board to criminal elements, and set up a time for stealing and selling the goods. After committing the crime, the law breakers pay off crew members with a certain amount of monetary remuneration according to the quantity of goods stolen, and then take these goods and materials and resell them at market prices, thereby reaping a profit. B. Larceny. If the crew members on the barge intentionally leave the boat or are fast asleep late at night, criminal elements will carry out criminal activity in a clandestine manner. C. Gang looting. If crew members are not swayed by the money offered and decline to be partners in committing a crime, criminal elements in society will gather together, rely on their overwhelming numbers, and carry out gang looting activity overtly.

6. The scope of the activity is regional in nature. Chang Jiang robberies occur mainly near harbors which load goods that are scarce in the market, such as diesel fuel, fertilizer, coal, and iron and steel. When this type of crime is committed, although it may have no clear target, it puts priority on proximity. A river robbery at one site typically does not involve a long-range raid on a second site. It is clearly regional in nature.

7. The channels for disposing of stolen goods tend to be specialized. Goods and materials pursued by river robbers are often goods supplied under the state plan or goods which are in high demand but in short supply on the market. For river robbers, these stolen goods are like suitors "the daughter of the emperor would be happy to marry," and marketing these goods is quite unimpeded. According to the investigation, currently there are three major channels for marketing goods stolen by river

robbers: A. The goods are offered to nearby peasants or individual transport personnel. Peasants tilling the land need fertilizer and individual transporters require fuel. If they are able to buy scarce fertilizer and fuel at prices even lower than in the city, then this is of course a welcome event for them. Because of this, peasants and transport personnel are a major conduit for stolen goods sold by river robbers. B. The goods are offered to unregistered roving peddlers. There is a group of

unregistered roving peddlers along the banks of the Chang Jiang who unrestrainedly purchase barges' goods and materials from river robbers, and try to reap profits from this. C. The goods are offered for sale to village and township enterprises. Some village and township enterprises do not have raw materials supplied under a plan and, as a result, they indiscriminately purchase coal, steel, diesel oil, and other production-type raw materials. [passage omitted]



## EAST REGION

### Party Schools Emphasized by Jiangxi CPC Secretary

90CM0338A Nanchang JIANGXI RIBAO in Chinese  
9 Jul 90 p 1

[Article by Mao Zhiyong (3029 5268 3938), secretary of the Jiangxi Provincial CPC Committee: "Work Hard To Make Party Schools a Greater Success"]

[Text] Comrades:

The recent national conference for the principals of provincial, regional, and municipal party schools was another important conference organized by the CPC Central Committee as it concentrates on tackling party construction following the Fourth Plenary Session of the 13th CPC Central Committee. Key speeches by General Secretary Jiang Zemin and other leading Central Committee comrades like Qiao Shi and Li Ruihuan thoroughly explained a string of issues, including the nature, mission, and training goals of party schools and how party schools at all levels should step up party school work. Their speeches are an important guide for our effort to improve party schools and promote the study, propaganda, and research of Marxism. We must study them in earnest, understand them thoroughly, and carry them out conscientiously. The decision by the provincial CPC Committee to convene this conference for principals of prefectural (municipal) party schools is a major step in implementing the spirit of the national conference. Today a macroclimate in which party construction is a priority has come into existence and party school work at all levels has become easier than in the past. However, the mission we face has also become more onerous and the demands more exacting. An important issue facing us now is how to cope with this new situation, improve party school work effectively, and manage even better party schools at all levels in the province. This is the issue around which our deliberations should revolve. Our discussions should be a little more penetrating, our examination more specific. Here I would like to begin by discussing with you some personal opinions in the hope that others may come up with more valuable ideas.

First, we must see that improving party school work and managing party schools even better is both what historical experience teaches us and what the unfolding circumstances demand. When I say this is what we learn from historical experience, I mean that the use of Marxism to equip and educate the whole party is determined by the nature of our party as vanguard of the proletariat. Throughout our party's history, it has traditionally emphasized the use of Marxism to arm the minds of all comrades and the construction of party schools as a bastion of cadre education. According to historical records, the Marxist Communist School, the predecessor of the CPC Central Committee Party School, was founded right here in Ruijin in this province. It was there that many of our revolutionary elders

received their Marxist education, met the grim challenge of war, and became steadfast communist fighters. This glorious tradition has always been preserved and furthered successfully here in Jiangxi. During the political turmoil between spring and summer last year, why did the overall situation in Jiangxi remain relatively stable and why did our party members and cadres make relatively few mistakes? Apart from the fact that party and government organs at all levels in the province implemented the correct policies of the CPC Central Committee, the State Council, and the Central Military Commission, it seems that part of the reason has much to do with the Jiangxi tradition of stressing Marxist theoretical education. Of course, it is also inseparable from the highly effective work of party schools at all levels in the province over many years. When I say the intensification of party school work is what the unfolding circumstances demand, I mean that, given the present international and domestic situation, we urgently need to make even more comrades truly understand Marxism by having party schools step up the training of leading cadres at all levels if we are to ensure that party and state leadership at all levels remain in the hands of people loyal to Marxism. When a party member or cadre is unschooled in Marxism and has no aptitude for applying the Marxist stand, viewpoint, and method to analyze and solve problems, his loyalty to Marxism is out of the question, thus disqualifying him as a leading cadre. The present generation of cadres, especially young and middle-aged cadres under 50, is our bridge between this and the next centuries. How well schooled they are in Marxism not only has a bearing on our ability to meet the challenge of running the state, of reform and the open policy, and of opposing peaceful evolution, but will also help determine the fortunes and survival of the party and the nation and the future and destiny of socialism in China. Accordingly, it is both our top priority now and our long-term plan to intensify party school work vigorously, using Marxism to arm leading cadres at all levels. This is the objective and significance of our emphasis on managing party schools even more successfully.

Second, we must be clear that the key to making party schools better run is to steadfastly combine theory with practice. Combining theory with practice is our basic method of mastering Marxism and a guiding principle that the party school must follow in all its educational work. This is because in the final analysis, the purpose behind running a party school properly and training cadres is to enable all of us to master the Marxist stand, viewpoint, and method and use them successfully to analyze and solve the endless new problems that may arise in practical work. The practice of party schools at all levels in our province also shows that in the past the party school which did well in this area also did well all round, making itself very appealing. To date, in order to implement the principle of combining theory with practice even more successfully, we must work even harder in

these four areas, building on lessons from our experience. 1) In response to the current ever-changing international situation and reality in the communist movement, we must seriously educate students in basic Marxist theory, the party's basic line, and basic knowledge about the party. After grasping these three "basics," it is hoped that students will become more knowledgeable in Marxist theory. 2) Students must be guided to tackle and answer thoughtfully certain questions concerning ideological and theoretical rights and wrongs that are of general interest inside and outside the party, guided by Marxism. They must be taught to reinforce their faith in communism and in taking the socialist road and enhance their ability to resist the thought of bourgeois liberalization and their initiative to combat corrosion, infiltration, and peaceful evolution. 3) Emphasize education in party spirit. Training in party spirit should pervade the entire teaching process at a public school. Increase ideological and political work. Improve students' regular activities. Conduct criticism and self-criticism frequently in order to turn party schools at all levels into furnaces where cadres are trained in party spirit, thereby reaping a double harvest in theoretical training and party spirit. 4) Increase theoretical research activities at party schools. Train both faculty and students to use basic Marxist principles to examine some of the more important theoretical and practical issues in reform, in openness, and in modernization. Review the masses' fresh experience, drawing broad theoretical points from it. Work hard to adhere to and develop Marxism.

Third, we must emphasize that party committees at all levels are to improve their leadership over party school work effectively. In the future, whether or not party schools at all levels in the province can be better run depends on the continued efforts of comrades in party school work, but, to a large extent, it will also be determined by whether party committees at all levels fully recognize the party school as one of their key working departments and an important irreplaceable base for the training of cadres and the intensification of party construction, and improve their leadership seriously. Party committees at all levels, therefore, must put party school work on their agenda and swiftly investigate and solve the major problems in party school work. In particular, they must guide party schools to unwaveringly stick to the correct direction in operating a school and adhere to correct teaching policies. Even as they improve the leading groups of party schools as well as their corps of teachers, comrades in charge of party committees at all levels must also set aside as much time as possible to attend some of the more important discussions at party schools. Sometimes they can sit in on a class. Other times they themselves can give a lecture to upgrade teaching quality. Propaganda and organization departments of party committees at all levels should stand side by side with party schools and devote themselves to creating and perfecting a system that will combine the training, evaluation, and utilization of party

members and cadres. Under such a system, one's academic record at the party school, as well as examination results, would be a key criterion in determining whether one would be hired. To further improve the operating conditions for party schools, party committees at all levels must consult with the pertinent government agencies and make special provisions for them regarding human, financial, and material resources.

In short, our party schools are in a new development era. I believe that, provided party committees at all levels strengthen leadership realistically and the 3,000 teachers and workers in more than 100 provincial, prefectural (municipal), and county party schools work hard steadfastly, we will certainly realize the spirit of the national and provincial conferences and bring about a brand new look in party school work in Jiangxi.

### Jiangxi Affirms Party Leadership Over Literature, Art

90CM0331A Nanchang JIANGXI RIBAO in Chinese  
20 Jul 90 p 3

[Article by Zhang Yi (1728 0122): "Party Leadership Over Literature and Art Must Be Enhanced"]

[Text] Enhancing the leadership of the party over work in the literary and artistic fields is an indispensable prerequisite for developing a flourishing socialist literature and art. Although, admittedly, certain "leftist" errors were definitely committed in our past party leadership over literature and art, our party has corrected these mistakes, learned lessons from them, summed up our experiences, and steadily learned and mastered the laws of literature and art in order to enhance our leadership over them.

However, the party stand of "less control and involvement" toward literature and art, which was proposed by a former key party leader at the beginning of 1988, was certainly going from one extreme to another. He said that "no works of literature and art should be either rashly praised and supported or rashly criticized," "we should basically not get involved in the matter of the character of particular works," and "we should categorically not get involved unless the law is broken." This "general" policy or "basic stand" was one that limited and hampered party leadership over literature and art, restricted and tied the hands of Marxist-Leninists, supported and connived with bourgeois liberalization, and landed us in a typically rightist quagmire.

Party leadership over literature and the arts must be persisted in and enhanced, and should cover politics, ideology, and general policy. It should rely on a correct guiding ideology and on formulating and enforcing the correct line, principles, and policies instead of requiring leading party organs at all levels to involve themselves in the particular routine affairs of all specific administrative tasks and artistic production, or use administrative and directive means to resolve literary and artistic issues. In fact, some decades of practice have proved that

using purely directive and coercive measures does not prove effective and may even have a negative impact.

Thus, party macro leadership over literature and the arts should rely on the formulation of correct literature and art policies in order to give literary and artistic development a healthy socialist orientation and enable literature and art policies to play a macro regulation and control role in this. This will enable us to promptly draw up literature and art policies that correspond to the literary and artistic demands of various periods, while making necessary timely revisions of certain literature and art policies which, based on the demands of developing and changing circumstances, prove to be no longer suited to needs, in order to give the literature and arts sector a certain amount of decisionmaking power. Premised on "opening up," "invigorating," and persisting in the policy of "one center, two basic viewpoints," party micro leadership over literature and the arts should conscientiously allow "creative freedom" in order to bring the socialist initiative of the masses of writers and artists into fuller play. Furthermore, respect for the laws of art is both the key to realizing authentic party leadership over literature and art and also the point that should be emphasized in improving party leadership over literature and art. A major reason for the longstanding occurrence of a series of critical mistakes in our literary and art work is that we ignored and did not act in accordance with the laws of literature and art. It must be understood that literary and artistic creation and the study of the theory of literature and art is a complex field of mental work that is permeated with individualism, makes unusual demands on writers and artists to bring their personal creativity into full play, and must be guaranteed a broad scope of personal creativity and initiative. All established patterns in this area may cause creativity to wither and studies to fail. Comrade Deng Xiaoping thinks that "party leadership over literature and art is not a matter of issuing orders that require the subordination of literature and art to temporary, particular, or direct political tasks, but is rather the practice of leadership based on the particular laws of development of literature and art."

First, since the Third Plenary Session of the 11th CPC Central Committee, the party Central Committee has repeatedly reaffirmed that the key method of party leadership over literature and art is literary and art criticism. Criticism and self-criticism must be used to gradually resolve issues of line about works of literature and art. This is because most products of the mind result from individual creative labor by mental workers, and are neither as easily and precisely evaluated nor as easily and unanimously appraised as are material products. Therefore, the party Central Committee has clearly demanded that "an end must be put to administrative orders in the field of literary and art criticism." This is a scientific conclusion that was reached by summing up over 30 years of work in the field of literature and art.

Second, developing artistic democracy and getting rid of professional dictatorship mean the same thing as far as

literary and art criticism are concerned. The excellence of a work of literature or art can be determined only by the masses, the criteria being how extensively and long it circulates among the masses. Marx said long ago that "the people have always been the only judges of an author's 'qualifications.'" Comrade Deng Xiaoping also said that the "ideological and artistic merits of a work should be evaluated by the people." We cannot use our own partiality and personal preferences as the criteria by which to assess literary and artistic works.

Third, concern must be shown for writers and artists, bureaucratic practices must be eliminated, and close links to writers and artists must be maintained. Marx and Engels' concern for worker-poet Vert, the close relations between Lenin and Gork, and the association between Mao Zedong and Guo Moruo are all models for us. They were both friends and comrades. All of this older generation of revolutionaries were genuine ideological supporters of writers and artists, guided them to persist in correct political orientations and, thus attracted and inspired thousands upon thousands of writers and artists to join the cause of proletarian revolution. Moreover, we must also understand the need to show consideration for the creative hardships and difficulties of writers and artists. Building such sincere relationships between party leaders and writers and artists is precisely what is needed to achieve an interchange of feelings, mutual links, and harmony between the leadership and writers and artists, transform party policies and principles into voluntary actions by writers and artists, stimulate creativity, and promote the development of socialist literature and art.

Of course, as leaders of work in the literary and artistic fields, party workers' understanding of the essence and limits of party policies on literature and art, has a direct impact on the correct implementation of party leadership over literature and art. This involves a very wide range of issues, mostly grasping the main points of various policies, such as the "dual" orientation of serving both the people and socialism, and the "double hundred" policy of letting a hundred flowers blossom and a hundred schools of thought contend. As the various contents of literary and art policies are directed toward specific fields and prescribe particular aspects, they form an organic whole. We should study this conscientiously.

#### **Jiangxi Party Secretary Stresses United Front Work**

90CM0338A Nanchang JIANGXI RIBAO in Chinese  
7 Jul 90 p 1

[Article by Mao Zhiyong (3029 5268 3938), Secretary of the Jiangxi Provincial CPC Committee: "Party Organizations at All Levels Must Take United Front Work as Priority"]

[Text] Comrades:



Recently the CPC Central Committee convened a National United Front Work Conference. It was an important conference in the history of united front work, one that would carry forward the new cause pioneered by our predecessors and forge ahead into the future. A few days ago the standing committee of the Jiangxi Provincial CPC Committee specially heard a relayed report on the spirit of the National United Front Work Conference and studied in earnest two key speeches by Comrade Jiang Zemin [3068 3419 3046]. All came away much enlightened and vowed to implement fully the spirit of the National United Front Work Conference. It was also decided to call this conference on united front work to further improve our understanding, clarify our tasks, enhance our confidence, and get the job done aggressively. Here I want to emphasize three points.

First, party members and cadres at all levels in the province must firmly cultivate, strengthen, and further develop the thought of the patriotic united front under party leadership. In his keynote address to the National United Front Work Conference, Comrade Jiang Zemin succinctly summed up the party's practical experience in united front work by combining history with reality, theory with practice. He further clarified the importance of united front work as well as its goals, policies, and mission. His speech constitutes a programmatic document on the collective guidance of the CPC Central Committee in united front work. We must study it repeatedly, understand it thoroughly, and carry it out conscientiously. At present, it is particularly important that our party members and cadres, especially leading comrades, understand that consolidating and developing the patriotic united front is a long-term strategic goal that would help determine the overall picture. In the new historic period, united front work must not be scaled back or watered down. On the contrary, it must be expanded and intensified continuously. Accordingly, we must step up propaganda and education on the importance, necessity, and long-term nature of united front, guiding everybody to integrate theory with practical work, and concentrate on raising understanding in the following three ways. 1) Fully understand that the united front remains our trump card in the new historic era. As an integral part of the party's general line and general policy, the united front has historically been the source of the mighty forces with which we overcame difficulties and won victories and an enormous political advantage for the party. Not only is it a basic characteristic of China's new democratic revolution, but it is also a major feature of socialist construction. During the period of socialist modernization, the united front will keep its important strategic place. To build socialism with Chinese characteristics, we need a most broad-based patriotic united front embracing the bulk of the Chinese nation. 2) We must fully understand that the essence of the united front is none other than uniting the majority. The patriotic united front of the new era is a very broad alliance. We must unite with any class, any stratum, any party, any group, and any individual, provided they help achieve the four modernizations, unify the fatherland,

revive China; provided they contribute to national unity, social progress, public welfare; and provided they contribute to defeating infiltration, subversion, and peaceful evolution by hostile forces at home and abroad. Only by achieving broad-based unity under the banner of patriotism and socialism can we weather the storm in many a complex situation, overcome difficulties, and forge ahead triumphantly. 3) We must fully understand that consolidating and developing the patriotic united front is an important guarantee of stable national development. Right now stability takes precedence over everything else. For us to defeat all sorts of conspiracies by hostile international and domestic forces and achieve stable political, economic, and social development in the nation, we must further strengthen our party's unity with all democratic parties, all people's organizations, and people from all walks of life, and safeguard unity among all nationalities. Only by understanding the issue this way can we firmly cultivate, consolidate, and develop the idea of patriotic united front and bring about a brand-new look in united front work conscientiously in accordance with the demands of the CPC Central Committee.

Second, party organizations at all levels in the province must take pains to do a good job in united front work and effectively strengthen their leadership over it. Adhering to party leadership is a basic guarantee of consolidating and developing the most broad-based united front. United front work covers a wide area and involves highly important policy issues. As such its success depends on the joint effort of party organizations at all levels. The presence or otherwise of a united front viewpoint and an aptitude for united front work is one of the major yardsticks in assessing a leading cadre for policy and theory standards. At present we work hard to achieve the following two things within the party, particularly among leading cadres. 1) We must take united front work seriously. 2) Let us all do united front work. For people to take united front work seriously, we must foster the idea that united front work is a job for the entire party, not just the united front department or some particular individuals. Members of the party committee, particularly its handful of top leaders, must make united front work a strategic priority and interest themselves in it. They should put it on the party committee's agenda and firmly and conscientiously supervise and speed up the implementation of the united front policy with planning and inspection and by showing a constant interest in it. Support the work of united front departments in every way, hear their reports in earnest, discuss the opinions and suggestions they put forward, and solve the problems they cannot solve by themselves but which must be solved. If all of us are to do a good job in united front work, the most important thing is for responsible cadres at all levels to consider united front work their personal responsibility and implement in earnest the party's various united front policies within their jurisdictions in light of realities. They should organically integrate united front work with their own duties and functions and do it well. Leading cadres at all levels must participate in some of the more important united front

activities but, even more important, they must have an aptitude for cooperating and consulting with people from the democratic parties, patriotic personalities with no party affiliations, and all kinds of representatives from outside the party in daily practical work. They must make friends, close friends, extensively among these people, take the initiative to get in touch with them and increase contacts with them, confide in them, and be truthful with them. In politics, at work, and in daily life, they should warmly care for them, help them, ease their anxiety, and do more practical things. Only by doing so can we unite all forces that can be united and mobilize all positive factors to make them better serve the construction of socialism with Chinese characteristics.

Third, united front work departments at all levels must expedite their own construction. On this matter, we must begin by affirming that to date we already have a corps of united front work cadres loyal to the party's united front cause who have done a lot of work conscientiously and uncomplainingly, with remarkable results visible to all. At the same time, we must also see that it is not at all easy to do a good job in united front work. The convening of the recent national united front work conference, in particular, is a signal that united front work will face an even more daunting mission and that united front departments and cadres have to meet even more exacting demands. Under these conditions, both comrades who are veterans in united front work and newcomers to united front departments face the issue of improving their policy level and practical work abilities continuously. Therefore we hope that comrades in united front departments will further enhance their sense of mission and responsibility; study diligently Marxism-Leninism-Mao Zedong Thought, Comrade Deng Xiaoping's discussions on united front work, and the party's theory and policy on united front; continue the party's excellent united front tradition and style, making do with what we have now; bring out our subjective initiative, and do our best to make united front work an even bigger success. Right now it is particularly important that we work harder to implement the spirit of the national and provincial united front work conferences with our positive spiritual outlook and exemplary behavior in order to achieve a breakthrough in the difficult areas of our work and open up a new era. Also, we fully believe that this is what comrades in all united front work departments in the province will do. Through our joint effort, united front work in Jiangxi will scale new heights.

**Commentator Urges Individual Sense of Openness**  
90CM0331B Nanchang JIANGXI RIBAO in Chinese  
23 Jul 90 p 1

[Article by staff commentator: "We Must Further Emancipate Our Minds and Expand Our Sense of Openness"]

[Text] Our experiences since the Third Plenary Session of the 11th CPC Committee have proved that our basic line of focusing on building our economy and persisting

in the four basic principles, reform, and opening up to the outside world is absolutely correct. Reform and opening up to the outside world is the way to strengthen our country and enrich our people. Without reform and opening up to the outside world, we could not have achieved our current heartening situation of political, economic, and social stability. We must conscientiously sum up our historical experiences, unswervingly implement the correct policy of reform and opening up to the outside world which was proposed by the central government, further emancipate our minds, and enhance our individual sense of openness.

Although the understanding of reform and opening up to the outside world throughout Jiangxi has generally improved in a decade of practice, since we still have some comrades who have not been able to adapt their thinking to this changed situation, it has become necessary for the provincial party committee and government to propose further reeducation throughout Jiangxi on this matter. We must form a "macroclimate" of openness and establish a solid foundation for opening up to the outside world through reeducation, further mind emancipation, and enhancing our sense of openness. We must enhance the overall understanding of the party's basic line among leading cadres at all levels and, focused on building our economy, organically combine persisting in the four basic principles with persisting in reform and opening up to the outside world. We must correctly understand the relationship between our use of foreign investment and self-reliance. Our aim in using more foreign investment is precisely to make us more self-reliant by speeding up our economic growth. As we depend mostly on our state-owned economy, we are absolutely not using more foreign investment and setting up the "three kinds of foreign trade" enterprises to change the socialist nature of our economy. We must eliminate our "three-fear" mentality of fearing to harm our personal political images, fearing to be suspected of being involved in corruption and bribe taking, and fearing to take risks, and establish an image of reform and openness among leading cadres and groups at all levels.

The key to emancipating our minds and expanding our sense of openness is to translate it into action. We must vigorously encourage a spirit of dealing with concrete matters relating to work, in order to translate mind emancipation into action, express our sense of openness in our actions, and form a political atmosphere in which the actual quality of our work is used as the criteria by which to judge our sense of reform and openness. We must persist in carrying out the policy of "support, follow-up, and replacement" that was proposed by the provincial party committee and government, seize the current opportunity to develop an externally oriented economy in our coastal zones, better complement our disadvantages with our advantages, and make the use of more foreign investment the priority of our future opening up to the outside world. We must commend and reward personnel who make outstanding achievements

in reform and opening up to the outside world. We must set strict limits as to what is criminal and what is not for cadres who make mistakes in opening up to the outside world due to a lack of experience, protect and encourage the initiative of cadres and the masses for reform and opening up to the outside world, and truly establish throughout society a new sense of the honor that can be won through reform and opening up to the outside world.

### Article Attacks Peaceful Evolution

90CM0376A Hangzhou ZHEJIANG RIBAO in Chinese  
31 Jul 90 p 3

[Article by Jin Zhenhua (6855 2182 5478): "Crush 'Peaceful Evolution' Conspiracy With the Weapon of Philosophy"]

[Text] Materialist dialectics tells us that when an object changes, it goes through a process of quantitative change giving way to qualitative change. Quantitative change is small and not striking. It is a change in degree, gradual, relatively static, and not readily noticeable. But when change ceases to be a change in degree, it becomes qualitative change. Theoretically, the Western strategy of "peaceful evolution" is just such a process of quantitative change giving way to qualitative change. For years, the West has been infiltrating socialist nations, producing an imperceptible influence in some quarters to various degrees. Such is quantitative change. The aim is to force socialist nations to "Westernize" totally when conditions are ripe, that is, to make qualitative change. How does Western capitalism seek to effect this process of quantitative change giving way to qualitative change? First, on an ideological level, it uses so-called democracy, liberty, and human rights as bait to peddle Western values. It conducts psychological warfare through such tools as the mass media, the press, and magazines. It exploits the political errors and short-term economic difficulties in socialist nations and preaches that "communism is mired in a profound crisis." It endlessly infiltrates the ideological arena of those nations with bourgeois reactionary ideology, poisoning the souls of their people in an attempt to undermine at the source their faith in communism. As a result, some people have lost confidence in the socialist system and become the slaves of the bourgeoisie. Second, politically it propagates "pluralism," the "multiparty system," "parliamentary democracy," "separation of power among three branches of government," so on and so forth, trying in vain to weaken and even repudiate the leadership of the CPC. It purposely train fosters political vacillating elements in socialist nations and supports so-called "dissidents." In the name of so-called "human rights issues," it props up antigovernment troublemakers and talks until its lips and tongue are parched, vainly hoping to sow the

"seeds of freedom" in socialist countries. Third, economically it takes advantage of the reform and open policy in socialist nations, wooing them with aid and loans in a vain attempt to draw them away from the socialist road and gradually convert them to laissez-faire and a market economy. Western nations frequently use economic sanctions as a stranglehold to intimidate others into accepting the capitalist economic system. After achieving economic control, they will push for political transformation.

Since quantitative change is not easily detectable, the Western strategy of "peaceful evolution" is extremely dangerous. As long as the confrontation between socialism and capitalism remains in the world, the struggle between "peaceful evolution" and "anti-peaceful evolution" will be with us for a long time to come. If we lower our guard just a little, we will give the Western strategy of "peaceful evolution" an opportunity it can exploit.

Of course, it is only when it gets to a certain point that quantitative change becomes qualitative change. The Western strategy of "peaceful evolution" is dangerous, but this does not mean that it is inevitable or irresistible. Materialist dialectics tells us that the external cause that causes an object to change is the conditions, but the internal cause is the basis. The former works through the latter. If only we adhere to the foundation of the nation, follow the road of national strengthening, take effective measures to eradicate the soil and conditions on which "peaceful evolution" depends for its survival, and build up a strong line of defense, we will certainly crush the schemes of Western "prophets." A crucial point here is that even as we implement the general goal and policy of reform and openness, we must stick to the four cardinal principles throughout. As we import funds, technology, and managerial experience from the West and engage in all sorts of cultural exchange with them, we must firmly reject all corrupt capitalist things. We must learn a profound lesson from the experience in recent years of stressing the construction of the material civilization while playing down that of the spiritual civilization and do a good solid job in constructing the socialist spiritual civilization. The masses, particularly young people, should be educated unwaveringly in patriotism, collectivism, socialism, self-reliance, and arduous struggle. Marxism and socialism must be used steadfastly to guide ideological work and occupy the ideological and cultural base. The press and the theoretical, publishing, artistic, literary, and educational communities must do their job properly from the strategic high of resisting "peaceful evolution." This way we will pass any test, however perilous, posed by political change and turmoil. "Sit tight in the fishing boat despite the rising wind and waves." We will certainly win this powderless war in the long run.



### Zhejiang People's Congress Committee Hears Reports

OW1209213990 Hangzhou Zhejiang Provincial Service  
in Mandarin 0900 GMT 6 Sep 90

[Text] The 18th Session of the Seventh Provincial People's Congress Standing Committee opened today, presided over by Chairman Chen Anyu. The session will last for five days with eight items on the agenda.

Today's session heard the following:

A report delivered by Zhong Borong, deputy secretary general of the provincial government, on behalf of the provincial government on the serious damages caused by typhoon No. 15's frontal attack on Zhejiang Province, the efforts to resist the disaster, and the relief work.

A report delivered by (Jin Lianqing), deputy secretary general of the provincial government, on behalf of the provincial government on the progress of Zhejiang's opening to the outside world.

A summary report delivered by Tao Jian, vice chairman of the provincial election committee, on behalf of the provincial election committee on the elections of the forthcoming county and township people's congresses throughout the province.

Reports separately presented by Yu Kejia and (Yang Zhanda), vice chairmen of legislative affairs commission of the provincial People's Congress, on the deliberations of the draft regulations on the administration of boats operating along the coast and the bordering rivers in Zhejiang Province, and on the opinions expressed in the deliberations of the Measures for Managing the Demolition and Relocation of Houses for Urban Reconstruction in Ningbo City.

Explanations separately given by Wang Hongyi, secretary general of the provincial government, and (Xu Aiguang), chairman of the provincial family planning commission, on the draft regulations on conscription work in Zhejiang Province and the draft regulations on the question of birth for minority nationalities in Zhejiang Province.

The session also heard an explanation given by (Kong Xiandan), vice chairman of the Ningbo City People's Congress Standing Committee, on the measures for managing the demolition and relocation of houses for urban reconstruction in Ningbo City, as well as reports on personnel appointments and removals submitted by the provincial court and procuratorate.

Wu Minda, Li Yuhua, Zhu Zuxiang, Wang Yumin, and Yang Bin, vice chairmen of the provincial People's Congress Standing Committee, attended the session.

Chai Songyue, vice governor; Zhan Shaowen, vice chairman of the provincial committee of the Chinese

People's Political Consultative Conference; Chen Yuexing, deputy commander of the Zhejiang Provincial Military District; as well as responsible persons of the provincial court and procuratorate attended the meeting as observers.

### CENTRAL-SOUTH REGION

#### Shenzhen Clamps Down on Press Offices

HK1109152990 Hong Kong MING PAO in Chinese  
31 Aug 90 p 9

["Special dispatch" by Hsiao Chien (4682 0494): "Shenzhen Allows Only 19 Press Institutions To Continue Operations"]

[Text] Offices that were set up in Shenzhen by press institutions from other parts of the country were recently ordered to register anew with the department concerned in Shenzhen as a part of a consolidation operation. It is expected that some of these offices will be closed down as a result of this operation.

Shenzhen has reportedly become a focus of attention for the press since it became a special economic zone. In consequence, many newspapers, radio broadcast stations, news agencies, and magazines, from the central to local levels, have set up their offices in Shenzhen. Now a total of 60 to 70 offices of this kind are operating in Shenzhen.

Some of these offices belong to official press institutions directly under central organs. Most of them have been carrying out news coverage appropriate to their status and have played a part in publicizing Shenzhen. However, some other units which are not so well established, such as correspondent stations and offices set up by press institutions at the city and provincial levels, have engaged in activities inappropriate to their status. In the name of press institutions, they have made every effort to sell their advertising space, engaged in illegal profit-making activities, or even played a part in illegal buying and resales, thus sully the reputation of the press.

Some people often show up on public occasions in Shenzhen, posing as reporters. But in fact they are jobless people from other places. Not long ago, a reporter of XX LAONIAN BAO, who claimed himself to be a special representative from a certain Taiwan establishment, showed a group of self-styled Taiwan businessmen around Shenzhen, and visited some enterprises under the pretext of a fact-finding tour to enjoy free drinks and banquets. Later, investigations showed this man had been dismissed by his newspaper office long before.

The target of the current operation launched by the relevant department of Shenzhen City is to clear away most of the press offices and let only 19 continue to operate. Of these 19 offices that are to remain, 11 are directly subordinate to central press institutions and four are subordinate to Guangdong Province. Although Hong

Kong and Macao reporters are subject to strict regulations in Shenzhen, the city authorities will still allow four Hong Kong and Macao press institutions, consisting of two newspapers, a news agency, and an economic journal, to keep their correspondent stations or offices in Shenzhen.

Apart from straightening out offices of non-local press institutions, the Shenzhen authorities will continue to keep local press institutions under strict ideological and political control. Two newspapers published in Shenzhen were ordered to suspend publication after the 4 June incident and have still not resumed operation. And they are still undergoing internal screening and consolidation. Apart from these two newspapers, namely, SHEKOU TONGXUN BAO [SHEKOU GAZETTE] and SHENZHEN SHANG BAO [SHENZHEN COMMERCIAL NEWS], which have suspended publication, another economic theoretical journal, YINJIN [INTRODUCTION] has also been ordered to suspend publication because of its overly liberal views.

## NORTHWEST REGION

### Altay Prefecture Teaches Nationalities Theory

90CM0372A Urumqi XINJIANG RIBAO in Chinese  
18 Jul 90 p 1

[Article by reporter Zhang Jiayin (1728 1367 0603): "Take Nationalities Theory Education From the Classroom to the Grassroots—Altay Prefecture Broadens Marxist Nationalities Theory Education"]

[Text] XINJIANG RIBAO Altay News—"Since ancient times, Xinjiang has been an inalienable part of this great country. To uphold the Marxist nationalities concept, we must insist on unity of the fatherland and oppose national splittism," the assistant professor speaks with fervor and assurance and discusses the present by referring to the past and, dealing with the profound in simple terms, explains the true essence of Marxist nationalities theory and the significance of national unity to the stability of Xinjiang's political, social, and economic systems. The students listen intently, take notes, and when it comes to the exciting parts, applaud with enthusiasm.

This is not a political science class; rather, it is He Site (0735 2448 3676), assistant professor of the Altay Prefectural party committee's party school, lecturing on Marxist nationalities theory and the party's policy toward nationalities in Fuhai County during this eighth National Unity Education Month.

Altay Prefecture is treating the education program on Marxist nationalities theory and the party's policy toward nationalities as an important link in strengthening national unity. During this eighth National Unity Education Month, 15 professors, lecturers, and theorists have been selected from the prefectural party committee's propaganda department's group of lecturers and

from the party school to form a dissemination group which is dispatched deep into the factories, mines, enterprises, polytechnic schools, senior-high classes of the Geological Middle School, and some government units to lecture on Marxist nationalities theory and the party's policy toward nationalities. A vice president of the prefectural party committee's propaganda department and a vice principle of the party school also take up the lecture duty with enthusiasm.

To make the lectures more effective, the dissemination group insists on the principle of linking theory to practice, and, targeting specific areas, has prepared three topics, with the emphasis on explaining the core and the gist of Marxist nationalities theory, the significance of the nationalities issue, and how to foster national unity and fulfill the central task of putting the party and the country above all things. When Gao Zongxia (7559 0112 7209), the party school lecturer, was lecturing at the Prefectural Normal School and other polytechnic schools, he cited many different sources and explained issues with skill and patience, melting theories, knowledge, and topics of interest together, and was lauded by teachers and students alike.

Since May, the dissemination group has gone to 20 units and given 47 lectures; more than 4,000 staff and workers, cadres, and students have attended. A leading comrade of the prefectural party committee's propaganda department told this reporter that never before have the lectures been so popular and well-attended. Sending professors and lecturers to the grassroots level to explain the nationalities theory is also a historic first.

### Urumqi Hosts Counterrevolutionary Rebellion Exhibit

90CM0372B Urumqi XINJIANG RIBAO in Chinese  
18 Jul 90 pp 1, 3

[Article by reporter He Ruilan (0149 3843 5695): "Urumqi Hosts Exhibition on Quelling Baren Village's Armed Counterrevolutionary Rebellion"]

[Text] XINJIANG RIBAO Urumqi news—"To expose the counterrevolutionary crimes of a handful of national splittist elements and glorify the selfless and fearless spirits of our armed police warriors and people of all nationalities who helped put down the rebellion, the "Exhibition on Quelling the Armed Counterrevolutionary Rebellion in Akto County's Baren Village" opened on the morning of the 17th [July] at the Autonomous Region Exhibition Hall.

Song Hanliang, Tomur Dawamat, Li Shoushan, Amudun Niyas, Zhang Sixue, and other leading comrades of the autonomous region as well as leading comrades of the Advisory Committee, Discipline Inspection Committee, Standing Committee of the People's Congress, people's government, Autonomous Region CPPCC, Xinjiang Military Area Command, and Xinjiang Production and Construction Corps visited the exhibition together.

This exhibit was organized as a result of the regional party committee's decision. Similar exhibitions have been held in Kizilsu Kirgiz Autonomous Prefecture and Kashi, Hotan, and Aksu Prefectures, where more than 60,000 have attended. The exhibition is divided into 10 parts; it presents many photographs, objects, videotapes, and other materials to let the visitors witness the entire process of the soul-stirring struggle between the splittists and anti-splittists in Baren Village. The largest group of visitors and those who paid the closest attention were local Uygur peasants and patriotic religious figures. Sometimes old men by the hundreds would stand in the long lines under the hot sun, waiting to get in. They witnessed the savagery of martyrs being slaughtered by the counterrevolutionary thugs and wept openly along with their Kirgiz guide. Some would lay wreaths before the portraits of the martyrs, some would bow their heads again and again. They say that the handful of counter-revolutionary thugs are the common enemies of the people of all nationalities and the martyrs who put down the rebellion are China's heroes. We, like the martyrs, must use our own blood and life to protect the fatherland's integrity and enhance national unity.

Liang Guoying [2733 0948 5391], member of the Standing Committee of the autonomous region party committee and secretary general, spoke at the opening ceremony. He pointed out that the armed counterrevolutionary rebellion in Baren Village was an organized, planned, premeditated plot instigated by foreign national splittist elements and enemy forces who have infiltrated the area as well as a handful of national splittist elements in religious garb. The gist of this uprising was to oppose the Communist Party's leadership, combat socialism, and overthrow the people's government, in a vain attempt to split the unified fatherland. In the struggle to quell the Baren Village armed counterrevolutionary rebellion, comrades of the Southern Xinjiang Command followed the party Central Committee's, the State Council's, and the regional party committee's instructions diligently, and despite the extremely difficult conditions, they summoned their greatest political fervor and revolutionary spirit that conquered all hardship and difficulties and worked day and night to make their mark. The regional Armed Police Force, the three divisions of the Army, corps, and peasants, and the police and citizens of all nationalities from Kashi Prefecture and Kizilsu Kirgiz Autonomous Prefecture fought alongside each other in the struggle and contributed much to the quelling of the rebellion. Especially the armed police warriors, their courage in the face of danger, their fearless revolutionary heroism, and their indomitable spirit will forever inspire us to go forward. Liang also urged all party, government, and Army personnel and comrades of all nationalities and from all walks of life to attend and be enlightened and educated as they view the exhibits.

Yesterday, cadres and staff and workers of the autonomous region's party committee organs and delegates attending the 15th full (enlarged) session of the third

autonomous regional party committee visited the exhibition together. National representatives even held a discussion afterwards. They said that the exhibition had been a deep and profound lesson on class struggle. Stability must come before everything else. To secure stability, we must remember well that national splittism is Xinjiang's greatest threat. We must vigorously strengthen the grassroots party organizations and political power structure, let Marxism take over the ideological front, strengthen religious management, and contribute to the struggle to combat national splittism and protect the country's integrity.

The exhibition will remain in Urumqi for one month.

### **Xinjiang Instability Laid to Poor Religious Control**

90CM0372C Urumqi XINJIANG RIBAO in Chinese  
13 Jul 90 p 4

[Article in "Visits and Conversations with Scholars" column by Pei Yingming (5952 5391 2494): "Responsibilities of the Theorists—an Interview With Assistant Professor Yang Faren, Vice President of the Xinjiang Autonomous Region Social Sciences Academy"]

[Text] Comrade Yang Faren [2799 3127 0088] has been involved with the party's theory and propaganda work for many years. Through practice he has developed a fairly sound theoretical foundation and a strong political sensitivity. After the "12 December" incident in 1985, using his well-developed sense of the party and political sensitivity and targeting the erroneous concepts in the incident, he wrote a timely essay, "Upholding the Marxist Nationalities Concept To Oppose Nationalism" and took a clear-cut stand against bourgeois nationalism. The article apparently touched some sore spots, because he received some threatening anonymous letters soon after its publication. The writer, in his righteous stand, was not intimidated. Looking back at the lessons of the Baren Village armed counterrevolutionary rebellion, what are Comrade Yang Faren's thoughts? I decide to interview him.

When I stepped into Vice President Yang's office, he pointed to a pile of documents on his desk and said, "I was just about to write an article on the Baren Village armed counterrevolutionary rebellion."

"What a coincidence. I am here to solicit your views on the subject." Before I even finished, he took up a yet-unfinished draft of his work and said, "There are many questions about the Baren Village armed counterrevolutionary rebellion which we should think carefully about. How did the banners of 'Revive Islam' and 'Religion Shall Conquer Marxism-Leninism' hoisted by the national splittist elements fool so many people? The open denunciation of the party's leadership and the socialist system in is of course generated by the enemy forces. But subjectively, a more serious lesson in this incident is the loss of religious control. To understand



this is only the beginning. We must further explore the deep-seated causes of how we have come to lose religious control."

"What do you think are the deep-seated causes?" I asked urgently.

He sipped some tea and said calmly, "I think there are several reasons. First, we should look for the answer in our guiding ideology. In recent years, because of the flood of bourgeois liberalization ideologies and because efforts to build the 'two civilizations' have been inconsistent—we have been 'tough on one hand and lax on the other hand,' and we have been slack with our political and ideological education. As a result, we have been vague about the relationship between the Marxist religious concept and the party's policy of freedom of religion; sometimes we even pitch one against the other. We are afraid to expose the true essence of religion and have failed to teach atheism to the masses of cadres and young people in a forthright and assured manner. We must be clear-headed in realizing that the party's policy of freedom of religion relies on the Marxist religious concept as its ideological and theoretical foundation. It plants its foothold on uniting people who have religious beliefs and those who have none to achieve the four modernizations. Second, efforts to correct various tendencies are unbalanced. In recent years, we have concentrated on combating 'leftist' tendencies and have ignored 'rightist' tendencies. We have even been biased toward everything 'right' and continue to oppose everything 'left,' and therefore we have eased control over religion and have let things drift. Third, we have failed to arm our party members and grassroots cadres with the Marxist religious outlook, and as a result, some grassroots party organizations have been completely disarmed by the advancing religious forces, and grassroots governments in some areas are being controlled or manipulated by religious forces. These are profound lessons."

As a result of Comrade Yang Faren's careful and logical analysis, I now understand the situation better. "Thus, the theorists must have great responsibilities. As the party's theorist, can you talk about what we can do to uphold and disseminate the Marxist nationalities viewpoint?"

Vice President Yang paused for a moment and said, "The most precious character of a party theorist is his struggle for the truth. Xinjiang is a multinationality region. To be involved in the study and dissemination of Marxist theories in Xinjiang, one must pay special attention to upholding and publicizing the Marxist nationalities viewpoint and the party's policy toward the nationalities and always take serving the people of all nationalities as the foothold and the departure point of all projects and not limit one's work to serving one

particular nationality only. A Han theorist especially must not limit his field of vision to the Han nationality, but must think about the welfare of the people of other nationalities and link his own future to the fate of the people of all nationalities in Xinjiang. In theoretical studies, we must always uphold equality among all nationalities and national unity—they are central to the Marxist nationalities viewpoint. We must always try to bring about the common prosperity and progress of all nationalities and insist relentlessly and tirelessly on struggling against erroneous tendencies with regard to the nationalities issue. While we should utilize criticism and reasoning to oppose bourgeois nationalism, which is an erroneous ideological tendency among the people, we should also take a clear-cut stand in our uncompromising struggle against the enemy force's national splitism to facilitate the development of a Marxist nationalities theory with Chinese characteristics and to increase the people's immunity against and their ability to recognize erroneous tendencies and reactionary thought. This is the unshirkable duty of the theorists."

"As a theorist, it is not an easy task to struggle for the truth. It requires us to do two things in practice: One is always to listen to the call of practice and pay attention to observing and studying major problems in real life and integrate the study of Marxism with exploring realistic problems and answering realistic questions. The other thing is to have the courage to uphold the truth. We must be willing to sacrifice ourselves for the truth. We should neither be afraid nor simply drift with the tide. Only if we can do this can we fulfill our duty as Marxist theorists."

#### **Politburo Member Yang Rudai Visits Xinjiang**

90CM0404B Urumqi XINJIANG RIBAO in Chinese  
31 Jul 90 p 1

[Report by Wu Fengli (0702 7685): "Politburo Member Yang Rudai on an Inspection Tour of Xinjiang"]

[Text] After his 11-day inspection tour of Xinjiang, Yang Rudai [2799 3067 1486], member of the Politburo and secretary of the Sichuan Provincial CPC Committee, returned to Sichuan on 26 July.

On his trip, Yang Rudai arrived in Urumqi on 15 July, and his inspection included Urumqi, Turpan, Kashi, Shihezi, and Yili. The following persons met Yang Rudai on his tour and reported to their guest on the political and economic conditions of Xinjiang: Wang Enmao, vice chairman of the CPPCC [Chinese People's Political Consultative Conference] and chairman of the Advisory Commission of the Xinjiang Uygur Autonomous Region CPC Committee; Song Hanliang [1343 3352 5238], secretary of the Xinjiang Uygur Autonomous Region CPC Committee; and Tomur Dawamat [6993 2606 1422 6671 3907 6314 2251], chairman of the Xinjiang Uygur Autonomous Region people's government.

### **Biadata on Newly Elected Vice President**

90CM0325 Taipei TZULI WANPAO in Chinese  
12 Jul 90 p 2

[Article by Huang Ch'ing-lung (7806 3237 7893): "Li Yuan-ts'u—The Silent Vice President Who Guides Constitutional Reform"]

[Excerpt] [Passage omitted] "What sort of person is Li Yuan-ts'u [2621 0953 4662]?" He answers in his own words:

"I am a relatively quiet type and deal with the outside world relatively little. I feel that the best career is to pursue research and teaching in a scholarly setting.

"Is my personality rather stern? What does stern mean? In the past when we criticized someone for being stern and upright, it was not a bad thing. One could also say this is choosing what is good and sticking to it; one cannot be wishy-washy in managing affairs, can one?"

"One must think of efficiency in conducting one's activities, when it comes to efficiency in public affairs, I am rather strict in my demands not just of others but of myself as well. As for being called 'silent,' when something needs to be said, I will say it; however, I do not run all over the place saying things.

"Not every job necessarily suits me, but since I've agreed to take on the responsibility, there's no point in thinking about this; I need to fulfil my responsibilities as best I can. It is just like if you go to live in a cold climate; although you may have lived in a warm climate for a long time, you have no choice but to find a way to adapt. An individual should always be adaptable; this kind of adaptability is total self-control.

"I often say, if I were minister for a day, when I died my gravestone would say that this person had been a minister; if I were minister for 10 years it would still say that this person had been a minister. But if I were minister for only a day and did a very conscientious job, it would far surpass being minister for 10 years and accomplishing nothing."

Li Yuan-ts'u's talk of efficiency and self-discipline is probably what gives people the impression he has a background in law. In fact, in looking at his educational background, he has had an association with law his whole life; it seems that he has always been involved with law, whether it has been studying it, teaching it, or practicing it.

Li Yuan-ts'u is from Pingjiang in Hunan province; he studied law at Central Political College and also received a doctorate in law from Bonn University in West Germany. After taking the judicial examination in Lanzhou in 1946, he held successive posts as a prosecutor and a judge. In 1951 he became a judge in Taiwan's Supreme Court. Later he was temporarily transferred to be assistant director and then director of the Military Court of the Garrison Headquarters. In 1969, he became advisor

to the Ministry of Defense while concurrently acting as director of the section on rules and regulations. In 1971 the Executive Yuan transferred him back as advisor to the Executive Yuan, and he concurrently headed the conference on rules and regulations. Afterwards he was dean of National Chengchi University, and headed the Ministries of Education and Justice. In 1984 he resigned from the Ministry of Justice. In October 1988 he was asked to serve as secretary general in the Office of the President.

Throughout his rich career in public office, when he was in between appointments, he taught law at National Chengchi University; he can truly be called a person whose life is dedicated to law.

Indeed, outsiders believe that the reason President Lee uses him so much is to take advantage of his legal talents. Li Yuan-ts'u himself says, "Because I have studied law, taught law, and practiced law for so many years, I know which people are specialists in which fields and who is relatively knowledgeable." It is said that since joining the Office of the President as secretary general, he has been President Lee's most important advisor on legal affairs. A recent example is his recent involvement in the special amnesty. Because the special amnesty did not affect Ch'en Ch'i-li (7115 0796 4409) and others involved in the Chiang-nan case, some people were totally unforgiving of President Lee, and they even came out with a public article on the subject, while in fact the entire case was the responsibility of Li Yuan-ts'u.

Li Yuan-ts'u believes that President Lee chose him not because he was better than others or because he was doing him a particular favor, but because he wanted to choose someone who could assist the president, someone who could fully accomplish the tasks and goals on behalf of the people and the nation during the next six years of President Lee's term. President Lee is certainly making use of this person; since he became secretary general, important policy decisions, personnel reorganizations, and constitutional questions have been heavily influenced by his ideas. Yet another example is his appointment as convener of the party's constitutional reform group.

Li Yuan-ts'u's dedication can be seen from the following incident. While President Lee was courting national assemblymen to gain their support, the President would often speak in Taiwanese with a group of assemblymen, while Li Yuan-ts'u stood at his side looking like a stage prop. Outsiders assumed this was because he did not understand Taiwanese, but in fact it was because he knew his place; he always stood behind President Lee, even when reporters took pictures. Later, when the President paid a visit to Democratic Progressive Party member Fan Chen-tzung (5400 2182 1350) in Hsinchu, Fan Chen-tzung asked Li Yuan-ts'u in Taiwanese, "Do you understand?" He replied in slightly accented Taiwanese, "Yes, I understand." Only then did people realize that he has known Taiwanese all along.

Another case is his calm reaction to the results of a poll taken by the Public Opinion Foundation. When they announced that only more than 30 percent of the public approved of him, many people indignantly protested on his behalf. They believed that since the vice president has no real governmental responsibilities, he should really not be a target of public opinion polls. But he maintained complete silence throughout this time and did not mention the matter to his subordinates. One politician who had contact with him privately divulged that Li Yuan-ts'u feels that "I'm just myself, my natural self, if I must describe myself, I would say that I go about my affairs as honestly as possible, without trying to start anything." However, the spokesman for the Office of the President yesterday started out by announcing news of the vice president's activities, indicating that his thinking has changed a little.

As the government moves in the direction of democratization and nativization, how does Li Yuan-ts'u, an outsider to Taiwan, regard his relationship with Taiwanese society? Once, in a private setting, Li Yuan-ts'u described his situation this way: "I have even deeper feelings for Taiwan than you do. I have already lived here for 40 years; I eat here and drink here!" It would appear that the divisiveness caused by attachment to one's provincial roots, formerly of such great importance to those in government, does not exist between President Lee and Li Yuan-ts'u.

Having spent so long in public office, Li Yuan-ts'u has developed his own "philosophy of public service." He often says, "The public can profit from us, but we can't profit from the public." He is physically active; for example, when he leaves work he never takes the bus, and his family is the same. He mails many letters each month to people locally and abroad, but the postage comes out of his own wallet; he spends about 1,500 yuan in a month. Even when taking staff members out to eat, he pays out of his own pocket. During the presidential election there was a lot of mailing to do, and the First Department of the president's office asked him if he needed any assistance; he replied that this was personal work, and he hired assistants on his own so as not to inconvenience the staff.

Because he was a diplomat, Shen Ch'ang-huan [3476 2490 3562] emphasized social events when he served as secretary general of the Office of the President, and the general affairs staff were kept quite busy. When Li Yuan-ts'u took over, however, according to staff members, the general affairs staff had no work to do. Because he did not entertain guests, he would occasionally hold a banquet for staff members, always in the dining hall of the Office of the President.

Li Yuan-ts'u's family is uncomplicated. His wife, Hsu Man-yun [1776 2581 7189], is the daughter of Hsu Shih-hsien [1776 0013 6343], the former deputy minister for administrative affairs at the Ministry of Justice; she has also done legal work. His oldest son, Li Li-hsin [2621 4539 1800], holds a doctorate in material science from

Heidelberg University in West Germany; he works in West Germany. His second son, Li Li-fu [2621 4539 1133], has a masters in business administration from Cologne University in West Germany, and currently works in Taiwan. The family has participated very little in the social activities of political circles, and so outsiders are still rather unfamiliar with them. But Li Yuan-ts'u often goes mountain climbing on Chihnan Mountain in Mulan, wearing athletic shoes and with a towel around his neck, and the people of that district know him well.

For a long time Li Yuan-ts'u has had a chronic stomach ailment. During the presidential election his stomach pains worsened, but in order to help out with the election he withstood the pain and put off seeing a doctor. When the election was finally over he succumbed to illness. When he was dean of National Chenchi University over 10 years ago, he held a joint university conference; at that time he became ill because of overwork, and he coughed up blood. He gradually lost 12 kilograms. This willingness to suffer pain and illness is probably due to his tough personality, but after experiencing this major illness Li Yuan-ts'u seems a little more open. He often tells whoever he comes across, "When you're sick, you can't work hard." Moreover, he lets younger people do more of the physical work.

Li Yuan-ts'u has been surprised by his success, from a glorious career as the head of the Ministry of Justice, followed by the quiet solitude of teaching students, to his unexpected revival two years ago to secretary general of the Office of the President, and finally to something he never would have dreamed possible in the past: appointment as vice president. Now he is serving as convener of the party's constitutional reform group, the lead player in a complex constitutional reform process, and he has difficult responsibilities. But whether he succeeds or fails, his countrymen will pay very close attention to him. But history obviously will not allow him to fail!

#### Interview With President of Legislative Yuan

90CM03584 Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 175, 22 Jul 90 pp 41-43

["Excerpts" of interview on 12 July by Chen Yu-hsin (7115 5940 9515) with Liang Su-jung (2733 5126 2051), president of the Legislative Yuan: "I Did Feel a Little Upset Lately—Liang Su-jung on His Anger, Pain, and Anxiety"]

[Text] Since the political strife in the Kuomintang in March, the major figures of the non-mainstream faction have ceased to wave the banner of opposition within the party. For example, Li Huan [2621 3562] seems to have retired from public life for the time being; Hsu Pei-tsun [6787 2672 2625] and Lin Yang-kang [2651 3152 3263] are content in their positions as premier of the Executive Yuan and president of the Judicial Yuan; and Chiang Wei-kuo [5592 4885 0948] is acting with a greater sense of propriety. But Liang Su-jung, president of the Legislative Yuan, who painstakingly avoided being drawn



into the vortex of political struggle in the first place, has recently become a controversial figure and complained about being "excluded."

While the conclusions of the national affairs conference were met with universal approval in the ruling party, Liang Su-jung alone took the lead in voicing his misgivings. Next, on the question of whether the Legislative Yuan should set up a constitutional reform committee, Liang Su-jung got into a dispute with Jao Ying-chi [7437 4481 1142], secretary general of the party committee of Kuomintang legislators, about "who faked the party's order." Then, Liang Su-jung, who as president of the Legislative Yuan should play a leading role in future revision of the Constitution, was excluded from the high-level discussions on the revision of the Constitution in the party. Finally, the Kuomintang central headquarters "included" him in the Constitutional Reform Planning Group and readjusted his seat on the Central Standing Committee.

At an exclusive interview by this magazine on 12 July, the day after the namelist of the constitutional reform group was made public by the Kuomintang Central Standing Committee, Liang Su-jung explained his "anger" over the question of his retirement. His exclusion from the party's decisionmaking, which "pained" him, was expected. On the issue of provincial origins, he denied that he had actively stirred up the contradiction, and he also expressed his "misgivings." However, it seems that his involvement in all kinds of controversies is quite involuntary, and because the overall situation remains unchanged, he is powerless to change anything, not to mention the fact that the burden he put on himself as a senior legislator cannot be relieved of until the end of the next year.

The following are excerpts from the exclusive interview.

[Chen Yu-hsin] You were not invited to attend the high-level meeting at the presidential office on 9 July. Does that have anything to do with the negative feelings you have shown since against the National Affairs Conference?

[Liang Su-jung] I have never objected to the National Affairs Conference. On several occasions I have publicly endorsed calling such a meeting. People on the outside must not misunderstand me. What I said was not casual remarks made on the spur of the moment, but was based on sound theoretical grounds. Formerly at a policy meeting I was instructed by Chairman Chiang [Ching-kuo] to communicate with non-Kuomintang figures and the Democratic Progressive Party. Therefore, I am for dialogue between the ruling party and other parties and the normalization of relations between the two. This is my consistent stand.

Now, the chairman of the ruling party, in his capacity as president, has invited people inside and outside the Kuomintang, the Democratic Progressive Party, and from overseas to open a dialogue. It is a very good thing to get the ruling party and the parties not in government

to sit down and talk. The turning of ordinary demonstrations and even violent ones into talks at the negotiating table and into a concrete exchange of ideas, is in itself of very great political significance. However, we are extremely worried from the beginning, because we all know clearly what the Democratic Progressive Party is after. Whether it is the Beautiful Island Faction or the New Wave Faction, their ultimate goal is the same: Taiwan independence. We are worried that, if the ruling party promises to revise the Constitution or establish a new one based on Taiwan, to discard the existing system of constitutional government, and thus reaches an agreement with the opposition parties, the problem between the ruling party and the opposition may be solved, but debates will erupt within the Kuomintang. However, further disagreements with the Democratic Progressive Party at this time may again lead to a split between the government and the opposition parties and even political instability. Therefore, I think this has put Chairman Li in a dilemma.

[Chen Yu-hsin] While being optimistic about the conclusions of the national affairs conference, you also hold some views that cause people to worry. Is it, as suggested by people outside the Kuomintang, something plotted by the non-mainstream faction behind the scenes, representing the voice of opposition by another force?

[Liang Su-jung] No, there has been no such discussion. Some people regard me as belonging to the mainstream, and others regard me as non-mainstream. To be frank, I am not of the mainstream, because I am not that important in the Kuomintang. But I also reject the suggestion that I am non-mainstream and that someone wants to attack me. If Chairman Li does not like me, he would not have asked me to be vice president and president of the Legislative Yuan. During the political strife, I played a mediating role on the strength of my personal relations. For example, Li Huan is my good friend, and Kuan Chung [7070 0022] is my junior, and during their dispute, I acted as a bridge between them. I suggested to the president that there should be cooperation between the president and the premier, which would be helpful to national politics. To Li Huan I said, "As premier, you should cooperate with the President." And I analyzed for him that the dispute was bad for both the country and the party. Therefore, I am not on the side of the so-called non-mainstream faction. Instead, I am a person who puts national interests above everything else. Neither can I say that I belong to the mainstream, because I do not know how to make the distinction. Nevertheless, I am president of the Legislative Yuan, which is a very important position, and I cannot deny that my action and stand do have a bearing on the state.

I have made suggestions and comments recently not because I was not invited to be a member of the preparatory committee for the National Affairs Conference. You see, none of the five Yuans was invited. And the Control Yuan and the National Assembly were not represented at the high-level meeting on 9 July. Why should I feel differently than the others? If we are still

controlled by self-interest at a time like this, then we must be men of no moral integrity. In the ruling party I am a member of the Central Committee, and in government I am president of the Legislative Yuan. These are high positions, and how can I still be dissatisfied? What can I do in the mainstream? To become premier? Or president? No, I know perfectly well what the future holds for me. I will retire by the end of the next year.

[Chen Yu-hsin] However, won't the timing of your remarks make people wonder about your intention and believe that you are motivated by self-interest?

[Liang Su-jung] Exactly. That's why sometimes I am so annoyed by the media's irresponsible reports on me. I admit that I did feel a little upset lately. I was "agitated," because the people of the Democratic Progressive Party tried to push me out. If the ruling party's Central Committee also regards the old legislators as targets of reform and tries to blacken their names, then there is no right and wrong in this world.

I think the interpretation made by the Supreme Court justices is unconvincing, but still must be followed. I know the inside story about the justices' interpretation. Originally, 10 justices felt that the time [for old legislators to retire] should be the end of 1992, which is very appropriate, because by that time all the additional legislators and national assemblymen will be up for reelection, and the reform will be carried out smoothly. However, the time was later changed to the end of 1991. Undoubtedly it was to coincide with the party's two-year and three-stage plan. It means that I would retire one year earlier.

Should people with different opinions and opposing Taiwan independence be regarded as reactionary? Now that the old legislators are all gone, the trend is undoubtedly toward Taiwan independence. Because, unlike us, who represent different parts of China and take the whole country into consideration, the new legislators' consideration is based only on Taiwan's interests.

[Chen Yu-hsin] It is inevitable that the Democratic Progressive Party is at odds with you. But there are complaints about you even in the Kuomintang. Is it because of your status as an old legislator?

[Liang Su-jung] Yes. They think that I am completely committed to the stand of the old legislators. But I personally feel that just because I am an old legislator does not mean that everything I do is wrong. That is a very biased attitude. I still take the stand of the Legislative Yuan as a whole in considering problems.

[Chen Yu-hsin] Do you think that these are isolated cases or caused by the conceptual disagreement between the younger and the older generations within the party?

[Liang Su-jung] Conceptual agreement or disagreement must be handled on the basis of law. However, if even

my existence is being denied, it is contrary to the basic principle of human decency. Is this the way to play politics?

[Chen Yu-hsin] Has the president of the Legislative Yuan been moved to a lower policymaking level within the party?

[Liang Su-jung] Li Huan and Lin Yang-kang [2651 3152 3263] were the conveners of the research group of the National Affairs Conference appointed by the chairman. Li Huan asked twice, "Two former presidents of the Legislative Yuan have been invited to attend the conference, and why isn't the current president invited?" Finally I was invited. Problems like this are caused by the state system, and not because I am trying to gain more power. As to whether they are trying to push me out, it is hard to say.

[Chen Yu-hsin] Among the past presidents of the Legislative Yuan, was there any difference in their position and influence within the party?

[Liang Su-jung] Of course there was. For example, former President Huang Kuo-shu [7806 0948 2579] was unable to attend important party meetings because Ni Wen-ya [0242 2429 0068] was a member of the Kuomintang Central Standing Committee. Later on, when Ni Wen-ya became president of the Legislative Yuan, he was very powerful and was invited to take part in everything.

[Chen Yu-hsin] The position of the president of the Legislative Yuan is uncertain in the party. What position do you think is appropriate?

[Liang Su-jung] This is not just a question of system. It also involves the decisionmaking of the Legislative Yuan and the Kuomintang. Now all decisions are made by the chairman and Secretary General Sung Chu-yu [1345 2806 3842]. No matter what system, you have to allow people to express different opinions. It is certainly helpful to listen to what others have to say, right or wrong.

[Chen Yu-hsin] You have always promised yourself to be a neutral and impartial speaker of the parliament. Why do you get yourself involved in the disputes, instead of letting other Kuomintang legislators argue with the opposition parties?

[Liang Su-jung] I do not want to get involved in disputes. I want to defend myself against uncalled-for insults. I am the chairman, and I have the right to correct them. They can call me names, but they cannot abuse me everyday in the Legislative Yuan. Of course, I will try to be patient.

[Chen Yu-hsin] Generally the chairman should not take part in debates, so that he can remain detached and make the final decision.

[Liang Su-jung] Certainly. Some say you are not acting properly as chairman. I say you'd better speak according

to the normal procedure. Whatever parliamentary culture you talk about is no longer practiced here. If you quit talking, I will too. To be sure, someone said that as chairman I should act like a dumb person. That could be a way. However, judging by the present condition in the Legislative Yuan, do you think it is possible?

[Chen Yu-hsin] Why is it that the relationship between the president and the party whip of the Legislative Yuan has never been harmonious?

[Liang Su-jung] The president of the Legislative Yuan embodies a legal concept, which the party should accept in its operations. Then, I told the party organization of Kuomintang legislators that, when necessary, I wanted to mobilize all party members to vote, but the party organization was unable to do so. The language used by the Democratic Progressive Party to abuse the Kuomintang has become resolutions of the parliament, but the party organization hasn't even bothered to take a look. What kind of party operation is this?

[Chen Yu-hsin] You are often faced with consultations between the Kuomintang and Democratic Progressive Party whips, and you do not always agree on the results of their consultations. Don't you feel that you are isolating yourself?

[Liang Su-jung] It is not a question of isolation, but a question of performing my duties according to law. I will support anything that is right, and I must stop anything that violates laws and decrees. It is not a question of isolation, but a question of rule by law. I am a thoroughgoing advocate of rule by law.

[Chen Yu-hsin] How do you define your own stand within the party? Are you a reformer or a person who blocks reform?

[Liang Su-jung] I have always supported democratic reform. The question is, of course, what is meant by reform? If opposing Taiwan independence means reactionary, then I am a reactionary because I am against Taiwan independence.

[Chen Yu-hsin] On the question of local self-government, you are a reformer, as you advocate popular election of the provincial governor, but are you not a person who obstructs parliamentary reform?

[Liang Su-jung] Do you think reform should be carried out immediately and completely, or should it be done gradually? Even the Kuomintang Central Committee does not call for immediate and complete reform. I do not accept the argument that I am against reform because I refuse to quit.

[Chen Yu-hsin] How do you think you are regarded by others in the party?

[Liang Su-jung] The young people probably regard me as an obstacle to reform, and I don't care. If I did, I couldn't stay on for a single day. Even the additional legislators are not unanimous in calling for my retirement. If they regard me, without provincial or age discrimination, as a legislator, I don't think there is any reason to discriminate against me. I am being discriminated against only because of my seniority as a legislator.

[Chen Yu-hsin] Some people think that because of your feelings as an old legislator, you often actively stir up the problem of provincial origins?

[Liang Su-jung] The problem of provincial origins does exist. I merely pointed it out. I assure you that I have never thought of stirring up the problem of provincial origins. It is a reality. Everyone can ask his conscience: Who have I discriminated against? Others have discriminated against me. Among all the presidents of the Legislative Yuan, I am the one who has done his best. Where have I failed to match the others?

[Chen Yu-hsin] Is communication between you and President Li smooth and unhindered at present?

[Liang Su-jung] If he does not come to me, there can be no communication to talk about.

[Chen Yu-hsin] If President Li wants to exchange ideas with you thoroughly, what recommendations would you make to him?

[Liang Su-jung] I can tell him all the things I have just said. I would say, "You have said yourself that you will lead us back to the mainland. The Constitution is the country's fundamental law, and you'd better not change it during your term. If you do, there will be disputes. Now that you have explained how the parliament should be reformed, let's do it accordingly. But don't change it again in the next year and a half. The next year and a half will be a period of political unrest, and you still need these people to support you. So don't offend them or abuse them."



**Poll Reflects Increased Confidence in Future**

90CM0323A Hong Kong MING PAO in Chinese  
12 Jul 90 p 2

[Unattributed article entitled: "Latest Poll Reflects Increasing Confidence, Return of Talented People Increases Significantly- More Opportunities, More Profits, a Satisfying Life Are Major Reasons for Returning to Hong Kong"]

[Text] The latest public opinion poll by the Hong Kong Market Research Agency indicates that the major factors drawing talented people back to Hong Kong are great opportunities and even greater profits it offers.

Half of the talented people who returned pointed out that they came back to Hong Kong to work after obtaining foreign passports because there are many job opportunities in Hong Kong and because incomes are sizable. Almost one-third of those returning pointed out that the support of family and friends was one of the reasons drawing them back to Hong Kong.

Difficulty in adapting to life abroad and the feeling that life in Hong Kong is more happy and fulfilling were other reasons that talented people returned. Of those polled, 21 percent and 17 percent respectively cited these as reasons they returned to Hong Kong.

Additional reasons included racial discrimination, job transfers to Hong Kong, and a desire for their children to receive Hong Kong educations. These reasons were cited by seven, six, and three percent respectively of the respondents.

The Hong Kong Market Research Agency accepted a commission from this paper to conduct the 25th confidence poll of Hong Kong residents, and carried out the poll last month, from 19 to 25 June. The poll was conducted by telephone and used a random sampling method, surveying 1013 people who ranged in age from 15 to 64.

Results of the poll indicated that the number of specialists, administrative personnel, and businessmen who have returned recently has grown substantially. On average, for every five households which had a member emigrate, at least one household had a member who returned to Hong Kong. In the poll held in April this figure was one in ten households.

The poll indicated that Hong Kong residents more or less continue to be more optimistic about the political and economic outlook. The political confidence index continued to rise from the low associated with the events of 4 June, increasing from 88 points in the April poll to 90 points in the current one. The economic confidence index rose two points to 94 points.

This indicates that, since the events of 4 June, the confidence of Hong Kong residents has indeed steadily recovered, and has already returned to half the level it was at in January 1989.

The number of people who were optimistic about Hong Kong's economic prospects this year continued to rise, increasing from 18 percent in April to 22 percent in June. The percentage of people expressing pessimism dropped from 34 percent to 28 percent. The largest share of those polled, 49 percent, still expressed a cautious attitude. Optimists still outnumbered pessimists with regard to the individual's economic situation. The number of people who were optimistic rose slightly, from 26 percent to 27 percent, while the number expressing pessimism decreased slightly, from 16 percent to 15 percent. However, close to 60 percent felt that the individual's economic situation would not change very much.

The poll also indicated that Hong Kong residents were increasingly willing to make purchases; the index increased from 99 points in April to 105 points. This was the highest level recorded since the polls began, even topping the level reached in January 1988. Even more specialists, administrative personnel, and businessmen have renewed confidence in Hong Kong's future. As much as 60 percent expressed confidence in Hong Kong. By contrast, only 44 percent had expressed confidence in April.

In addition, generally speaking, Hong Kong residents' views on the future were similar to those expressed in the April poll; 66 percent expressed confidence and only 34 percent expressed pessimism.

**Sociological Classification of Hong Kong Residents**

90CM0323B Hong Kong MING PAO in Chinese  
24 Jul 90 p 3

[Unattributed article entitled: "Hong Kong Residents Divided into Nine Categories; Empty Spendthrift Type Most Numerous"]

[Text] Would you like to know to which category of people you belong? The Hong Kong Market Research Agency points out that Hong Kong residents may be divided into nine categories based on their lifestyles and attitudes. These include the stay-at-home type, the easy life type, the traditional clan, the empty spendthrift, the thin baby, the hand-to-mouth type, the flourishing person, the boss, and the self-absorbed type.

The research used random sampling techniques and involved direct visits to 1500 people in March and April of this year. The people sampled were age 15 and older. They were categorized on the basis of their thinking, state of mind, and their attitude towards others. The goal of the research was to supply businesses with market data and give firms a better understanding of the targets for their product marketing.

Each of these nine categories has its own characteristics. The largest category is the "empty spendthrift" type, which makes up 16 percent of the total. Members of this group pursue the latest trends most actively, and pay

great attention to their appearance, thereby putting tremendous pressure on themselves. In addition, their thinking is also quite shallow. This type of person is best represented by soap opera characters like "Ch'en Chi" [7115 4480].

The smallest category is the "boss" category, which makes up five percent of the total. They have plenty of money and are certainly successful, but they endure considerable pressure and pay much attention to face.

On the other hand, "flourishing people" belong to the category which actively faces life and possesses a sense of social responsibility. They act with warmth and sincerity, can handle pressure with ease when they encounter it, and believe that money is not everything. In contrast, life is constant toil for the "hand-to-mouth type" group. They labor to support themselves and, for them, life is a struggle.

The "stay-at-home types" are people who center on the family. They accept new schools of thought, but do not dare to take risks and try new things, and are the "compliant uncle" and "compliant aunt" types. As for the "traditional clan" type, they are law abiding, and do not like to draw attention to themselves.

The "easy living" types are people who seek enjoyment from material things. The "thin babies" are the group with the most energy and vitality. They actively participate in group activities, like singing Cara OK, and enjoy pursuing happiness.

Among those who are pessimistic about the future are the "self-absorbed" type. They like to restrict themselves to their own little world, like a country closing itself off to international intercourse, and are indifferent to the rest of society.

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